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With the Author's Compliments
April 1877

SILVER

AND

THE INDIAN EXCHANGES;

A REMEDY FOR ITS DEPRECIATION

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These Essays were not written for publication, for which they are unsuited; but the first three were published, in order that every possible objection to the proposals they contain might be elicited.

The replies to all such objections as have come to the Author's knowledge are contained in Essays 4 and 5.—Possibly, more may be suggested hereafter, because upon so difficult a subject doubts are only natural. Should they be so, the Author feels certain that conclusive answers may be given to them; and he would gladly endeavour to supply them, but for his reluctance to persist in the too frequent intrusion of his views on this important question.

15*th April*, 1877. J. T. S.

SUBMITTED TO THE
SECRETARY OF STATE FOR INDIA IN COUNCIL

LONDON

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SILVER

AND

THE INDIAN EXCHANGES;

A REMEDY FOR ITS DEPRECIATION,

IN

THREE ESSAYS,

BY

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&c., &c., &c.,

SUBMITTED TO THE

SECRETARY OF STATE FOR INDIA IN COUNCIL.

LONDON:
EFFINGHAM WILSON, ROYAL EXCHANGE.

MINISTRY OF CULTURE · GOVERNMENT OF INDIA

The accompanying essays were written with the sole object of assistance to the Indian authorities, in discussing the means of remedying the very serious embarrassment caused by the depreciation of silver and fall of the Indian exchanges.

The Author has for many years past endeavoured to advocate the adoption of the only measure which, in his opinion, would be permanently satisfactory; namely the substitution of a gold for the present silver standard of value in India; a change which, if carried out according to the methods he has proposed, is easy to be effected, not only without expense, but with the early and final extinction of the very heavy losses now experienced.

The proposals are published, in order that every objection to them may be brought forward and fully considered. It would be presumptuous to expect that they will not be found to contain many defects; but it must not be forgotten that a very serious and alarming difficulty has to be surmounted; and if any of the suggestions offered for that purpose should survive the test of searching criticism, it is humbly trusted they may have the honour of being made useful in devising the means for its solution.

The first essay contains a statement of the measures proposed, and an enquiry into the anticipated objections thereto; the second and third essays contain answers to some further objections which have been received up to the present time.

1st September, 1876.

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ON THE MEANS OF RESTORING THE INDIAN CURRENCY TO THE VALUE IT POSSESSED PREVIOUS TO 1870, AND FIXING THE SAME BY INTRODUCING A GOLD COINAGE.

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1. The following remarks have been prepared in answer to the wish expressed by the Under-Secretary of State for India for any suggestions towards the removal of the serious evils consequent on the depreciation of the value of silver, and the fall of the Indian exchanges.

2. The proposal to introduce a gold currency for India was made so far back as 1864, and it is hardly necessary to state that if there appeared to be good reasons for that measure then, the arguments in favour of it are much more evident now: for it cannot be denied that if a gold standard had been substituted for silver in 1865 or 1866, the whole of the present very serious loss and embarrassment would have been prevented.

3. In a letter which I had the honour to address to the Secretary of State for India, dated the 15th January, 1868, I ventured to urge that the opportunity of introducing a gold standard which then existed should not be neglected; but I did not state all the arguments in favour of the change, because at that time I believed that the Government wished for and intended to make it. It may be right, however, now briefly to mention that, besides the other arguments so ably set forth in the former discussions of the subject; an important reason in favour of the introduction of a gold standard of valuation in India—one tending to the belief that sooner or later it must be inevitable—is not merely the confusion and detriment to

trade at present experienced, but the inherent mischief of an arrangement which subjects the enormous and daily increasing commerce of England and India to constant vicissitudes in the prices of the two metals constituting their respective standards of value, and the incessant liability to the embarrassment of all contracts connected therewith.

4. In a letter addressed by me to a leading member of Parliament, dated the 19th July, 1869, remarking upon the great misfortune it would be that we should *miss* the chance we then had of assimilating the currencies of India and England, I referred to the great advantage of putting an end to the oscillations of the exchange, which with a silver currency might range through about 16 per cent., and with a gold medium would be limited to about 2 per cent.

5. These remarks have been justified by late events, which have shown the possibility of fluctuations such as were anticipated; and the question now is, seeing that so great a fall has been experienced, and the silver contained in the rupee has already lost so much of its value, whether any measure can be proposed by which its purchasing power in India may be restored, and, consequently, the * exchanges brought back to their normal condition?

6. Although it cannot be denied that the difficulty of effecting this object is much greater now than it would have

* Following the "balance of trade," the exchanges rise and fall within the limits of the cost of procuring the moneys or currency of the respective countries. So long as the Indian money is readily procurable by means of silver bullion, its cost, reckoned in gold, cannot vary much from that of the silver; but if that facility were done away with, and Indian (rupee) money could be only procured by the delivery of gold, its cost might be increased, and the corresponding amount of English gold currency given for it (or the rate of exchange) would be increased also.

been some years ago, owing to the decline which has already taken place, yet there seems to be sufficient ground for the belief that, even now, if decided measures were adopted, it would not be too late to restore the currency to its former value for home (Indian) payments; and that, too, without any shock or disturbance; the principal step being that of putting a stop to the coinage of silver on private account, at the same time taking measures to discourage the importation, or at the least the circulation, of foreign made silver coins, and opening the mints for the receipt of gold bullion for coinage.

7. To explain how this would operate, I must observe that the internal commerce of India, which has only of late years begun to be developed, is still but in its infancy compared with what in the future it must attain to. The Indian Railways, of which only a first instalment is completed, have, together with the telegraph, had but a short time, comparatively, to act upon the dormant energies of the population; yet, nevertheless, if we may judge of the activity of internal commerce by the growth of the import and export trade, and compare the seven years' average ending in 1847 with those ending in 1874, we find that between the first and last mentioned periods—that is, in twenty-seven years—the growth of the export and import trade of India was from *£27,708,375 to †£99,608,798, that is, not very far from fourfold.

8. May we not argue from this that the internal trade of the Empire of India has increased and is increasing in somewhat a similar ratio; that, as the export trade is based upon the productions of the interior, and the import trade upon distribution of the returns in the interior, the two classes of commerce, more or less, rise and fall together?

* *Vide* Statistical Abstract relating to British India from 1840 to 1865, page 41.

† *Vide* Statistical Abstract, ninth number, pages 31 and 37.

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9. Whatever may be the cause, the internal trade of India has, ever since the beginning of this century, required constant and steady additions to her currency, averaging during the last thirty-eight years upwards of five millions of pounds sterling* per annum in value. Besides this, the returns show that the balance of imports over exports of gold bullion, during the same period, exceeded an average of two and a-half millions sterling annually, having been during the last twenty years more than four millions per annum.†

10. Such being the case, it appears to be a necessary consequence that, if the supply of rupees were put a stop to, the remainder must increase in local value, as compared with commodities, till they resumed the position which they held on a par with gold, at the rate of 10 rupees to a sovereign, for the 15 years previous to 1870.‡

11. After that point had been attained, it would be the interest of merchants to take gold to the Indian Mints for coinage; and they would do so, indeed, before the attainment of this improvement of the exchanges, owing to the premium or "batta"§ which would at first be obtained for the gold coins.

12. By this means gold would gradually be brought into India; and, as it has been shown that an addition to the circulating medium of at least five millions sterling per annum is necessary, and no silver coins could be admitted, it would slowly accumulate there; although it is true that, on every occasion when remittances of specie abroad were necessary, gold alone would leave the country; for unless, by any chance, bar silver were to recover its former price of 61⅞*d.* per ounce, the rupee pieces would become "tokens," worth considerably less than

*Miscellaneous Statistics—Finance—Account, No. 96.

†Miscellaneous Statistics—Finance—Account, No. 93.

‡*Vide* Report of the Conferences of the India Committee of the Society of Arts, 1870, Appendix, paras. 32—34.

§ *Vide* Para. 14.

their denomination, and could not be sent abroad without loss. There would be a bar to the export of gold coins also, at first, from their not being readily procurable.

13. The proposal therefore is, that, after due notice, the coinage of silver on behalf of private individuals and advances upon silver bullion should be suspended; that part of Act 23 of 1870, which makes it incumbent on the Government to receive and coin it, being repealed: the Government retaining in their own hands the power of replenishing the silver currency whenever they may deem it expedient. That gold bullion should be received by the Government at the Mint rate of Rs. 38 : 14 As. per standard ounce, and coined into sovereigns and half-sovereigns (representing Rs. 38 As. 15), or ten and five-rupee-pieces of the same value *, which should be declared legal tender, but not demandable †, the present silver rupees continuing to be legal tender, as before.

* It would be an exceedingly great help towards the introduction of the gold coins if, at the first, the option were given to the parties bringing the bullion, to have it coined either into ten-rupee and five-rupee-pieces, corresponding in composition with our sovereigns and half-sovereigns, or into pieces of precisely the same value, but in fine gold, 99½ touch. The latter would be much more acceptable to native prejudices and tastes, and more useful in their trade. There is an enormous amount of gold in India at present, of which a considerable part would probably be brought for coinage if this were granted. Any objection to the use of fine gold which might be raised on the ground of the coins being softer than the standard metal, would in reality be of no importance. These coins would be eagerly sought, and generally used for hoarding and manufacture of ornaments, and they would generally escape the attrition of common circulation. If they did not, and in a shorter time than usual lost weight beyond the mint "remedy," they would cease to be legal tender.

† Gold coins were struck in the Indian Mints since 1834, and were more valuable than their denominations as represented by the silver coins. They were by law legal tender, but not demandable, and they commanded a premium in the market. But only a few were called for, because the silver legal tender currency was procurable in unlimited quantities at a cheaper rate: and these gold coins were charged with the very high seignorage of 1 per cent.—far beyond the outside cost of coinage. Vide Prinsep's useful tables, page 1.

No seignorage should be charged for the manufacture of the gold coins beyond that implied in the terms of purchase, which are the same as those of the Bank of England, and yield a profit of one anna per ounce, or $\frac{1}{6}$th per cent. which is more than enough to pay all the actual outlay.*

14. As before observed, gold would leave India whenever specie remittances abroad were necessary; and on that account the gold coins, not being demandable, or parts of the regular currency at first, would command an "agio" or "batta" in the bazaar. This would be no objection, and it would tend to encourage the introduction of gold into India at other times. The "agio" might be considerable at first, but it would gradually diminish as the rupee currency became enhanced in value, and it would be finally put an end to whenever there came to be an abundant supply of gold coins, as compared with the inferior branches of the currency.

15. It may be here mentioned that the proposals contained in this memorandum involve nothing which is new and untried, or which has not the sanction of satisfactory experience. There is a precedent for the coinage of gold pieces separate from the ordinary currency, and making them legal tender, but not demandable, in the action of the Government of India in 1833†; and there is a precedent for the stoppage of the coinage of silver, in the proceedings of the British Government when our present system was established, and in the late successful action of the Government of Holland. There is a precedent, also, for the establishment of gold legal

* This statement is founded on the fact that the cost of coining rupee pieces in the Calcutta Mint is from $\frac{1}{2}$ to $\frac{3}{4}$ per cent., or eight to twelve annas per hundred pieces. One-sixth per cent on gold ten-rupee coins would be one-sixth of ten rupees, or $26\frac{2}{3}$ annas.

† *Vide* Prinsep's useful tables, p. 1.

tender coins, without seignorage, and a subordinate token currency, in silver and copper, in our own admirable and universally approved system in England. The apparent difficulty in the present case is the existence of the chasm to be bridged over; but for that purpose there are special facilities.

16. Indeed, there can be no question that there is ample power to effect the change, if it be once determined upon. As is hereafter shown, the mere stop of the coinage would bring about any necessary adjustment of prices, by the operation of natural causes, without any further action of the Government; and if a loan be raised, and the suspension of the coinage be added to the limitation of the sale of Council bills, the exchanges could not fail to mount up quickly to the required rate. To raise a loan and limit the sale of bills, without stopping the coinage of silver, as it would cause the remittances to be made by silver bullion, would lead to further additions to the Indian currency, and add proportionably to the delay and difficulty of restoration. Besides which, any advantage so gained, or by any means other than the adoption of a gold standard, such as raising the rate of discount, &c., would only be temporary, and would disappear as soon as the measure producing it was discontinued. The only thing which can *fix* * the value of the Indian currency, in relation to that of England, is to base it on gold. It will be observed that the method of doing this,

* It is not intended here to assert that the exchanges would become permanently fixed as soon as the coinage of silver was stopped, or they had once reached the rate of 2s: per rupee. They might continue to oscillate, slightly; but, from the time of the mint being closed, the rise and fall would be on either side of an ascending rate until, after it had been settled at 2s., and gold was established in India, these oscillations would be limited to the cost of freight and insurance of gold either way between England and India. Indeed, owing to special and peculiar circumstances,* even this amount of fluctuation would rarely exist.

* *Vide* Report of conferences held by the India Committee of the Society of Arts, 1870, Appendix, para. 18.

which is here proposed, requires no purchase or accumulation of either gold or silver, and no re-coinage, but leaves the change to be entirely wrought out by the ordinary operations of commerce.

17. The following remarks are offered in answer to various objections which either have been made or may be anticipated.

18. 1*st Objection.*—That it would be wrong for the Government to interfere, or by any act of legislation to cause an increase or diminution of the value of the currency.

To this objection all I have to reply is that my proposal is based upon the supposition that it will be agreed and intended that the currency should be restored in local value to what it was for the 15 years previous to 1870. It is beyond the scope of this memorandum to argue the point, or to presume to offer an opinion as to the urgent importance of the measure. It must be left to others to consider whether or not it be the duty of the Government to restore matters, and put them on a secure basis; giving due consideration to the fact that the neglect to do so may involve the loss to the Indian revenues of millions sterling per annum; and if it be decided that it is *not* so, there will be no object to be gained by paying any further attention to this memorandum.

19. 2*nd Objection.*—That the rupee pieces would not be "appreciated" by the proposed measures.

In answer to this I would observe that, as regards the greater part of the fall in the value of silver, it has occurred so recently that it is very doubtful whether prices generally throughout the length and breadth of India have been, as yet, affected by it to the full extent, if at all;* but, even supposing

* Since 1873, when the price of silver began to fall, the imports of that metal into India have been less than the normal supply; hence the opinion that prices cannot as yet have risen generally, owing to increase of the currency, consequently, that the rupee cannot be materially diminished in value.—Vide *Economist*, 6th May, 1876.

that in all India the rupees have 5 per cent. less purchasing power than they had in 1870, can we doubt that the withdrawal of five millions sterling per annum from the currency would improve the value of the remainder? In the course of ten years there would be a comparative deficiency of not less than 50 millions sterling, or 500 millions of rupees—fully one-fourth part of the largest estimate of the whole currency. It seems to be hardly credible that, if prices have been affected since 1870 by the additions made to the currency since then, they should not fall back to their former rates long before so large an amount of the normal supply had been withheld.

20. If the whole metallic currency of India be taken at the large estimate of 200 millions sterling, and if it be even assumed, as above, that it has fallen in value one-twentieth part, it would follow that a deduction from it, or diminution of its mass by one-twentieth part would be sufficient to restore it to its normal value; and this, at the rate of five millions sterling per annum, would be effected in only two years.

The recovery will probably be admitted to be only a question of time; for it is unlikely that any one would assert that, if all future additions to the currency were stopped for the next fifty years, the remainder would not be locally more valuable than at present.

21. But the "appreciation" of the currency may still be denied, on the ground that, as the material of the coinage has fallen in value, the currency itself has also fallen irretrievably; and that natives as well as foreigners, knowing the exact value of the bullion contents of the coins, would not give a fraction beyond it; so that it is in fact impossible but that the value of the currency must rise and fall with the value of the metal it contains. As this phase of the objection proceeds from a misapprehension of the mode in which

the prices of commodities are affected and regulated by the currency, it will perhaps be the readiest way of meeting it if it be first enquired, How it is that the currency of any State adjusts itself, by a self-acting process, to the true standard representing the ratio of bullion to commodities? This is not done in the way implied by those who speak of the natives in the bazaar as being intimately acquainted with the precise metallic contents of the coins, although it is true that to "shroffs," goldsmiths, and dealers in bullion it is well known; because, however well known to them, there is hardly one person in a thousand of the ordinary population who knows anything at all about the intrinsic worth of the pieces; just as the same is true even in England. Indeed, if they did, though they would be possessed of a precise knowledge of the value of the coins as contrasted with others, or with pure metal, this could not in any way affect the question of their comparative value with commodities, or influence the scale of prices. No man, for example, would be able to estimate the relative value of the 123.274 grains of standard gold contained in a sovereign, and a pair of boots. The process of adjustment is, indeed, quite a different one, and the same as that whereby all commodities, as well as coins, find their respective levels.

22. The instruments and means of exchange are subject to the law of supply and demand, as any commodities are, with this peculiarity, that there is an incessant and inexhaustible demand for them in every corner of the country. When the prices of commodities in general are too high, in other words, when the precious metal formed into coins is not sufficiently potent, then either more commodities are attracted to the market, or the coins are melted down and the bullion exported to other places, where it can do better. When, on the other hand, the prices of commodities are too low, that is, when precious metal in the shape of coins is too potent, it is quickly found to be profitable either to export commodities to better

markets or to bring in precious metal from abroad and form it into coins; and till one of these has been done the currency retains its extra potency. This process is constantly in operation; but it will be obvious that if the corrective be witheld on the side of repairing the deficiencies in the bulk of the currency, the inevitable result must be a gradual improvement in its power and local value.

23. As it has been suggested that the place and functions of the currency might perhaps be taken by silver bullion, it must be remarked that gold and silver bullion are themselves only valuable commodities, and it is not until they can be formed into legal coins, or sold to the Government at a "mint price" that they necessarily command any certain price in currency. If neither of these privileges were possessed, silver as well as gold bullion would be a mere commodity, fluctuating in value as gold now does in India, because no one can legally pay his rent or discharge a debt by means of it; and it must rise and fall in exchange for other commodities in proportion to the fluctuating demand, and the excess or deficiency of the supply. Bullion, therefore, could not be so used as to affect prices.

24. In order to illustrate the subject more clearly to those who may not be quite familiar with the effects of a contraction or enlargement of the currency, I would call attention to the effect which would follow the *opposite* measure to that recommended. Let us imagine that it were possible to completely shut off the egress of any coins out of the currency; and that, year by year, steadily, five millions sterling in value of coins, over and above the proper requirements of trade, were thrown into and retained in circulation. It is obvious that, after a time, the prices of commodities would be gradually increased in proportion to the "glut" of the currency. Such a measure would be difficult, practically, with a metallic circulation,

because the temptation to smuggle the coins abroad, where they would be more valuable, would be so great; but the same condition of enlarged issue is, in effect, realised practically, in the case of an inconvertible paper currency; and the result is well known.

25. And so, also, is the result well known of the withdrawal of the surplus of an overstocked currency: that is, the gradual reduction of all prices, including those of gold and silver bullion. In a paper read by Mr. E. Seyd before the Society of Arts, India Committee, on the 3rd March, 1876 (Journal, Vol. 24, No. 1216, page 308), it is shown that in the year 1865 the American Greenback inconvertible paper currency was so much in excess of the requirements of trade that 100 dollars of it were only exchangeable for 50 dollars in gold; yet, by no other means than the gradual withdrawal of the excessive issues, the premium on gold, which was 100 per cent. in 1865, had been reduced to 13 per cent. in 1875.

26. The same improvement in value attends the contraction of every kind of currency; and this would be easily recognised in regard to the measure proposed in this memorandum if we could get rid of the prejudice that coins, being composed of metal, must necessarily follow the fortunes of the metal. They would do so, if they could be brought into and taken out of the currency freely. But we must not lose sight of the important condition in the proposed plan, that no addition to the silver coins of India would be possible by the public, at any time; and as the exhaustion of the currency could only be made good, or the currency obtained by means of bills and gold, at a cost beyond the mint price of the cheapened silver, the rupees, though continuing to perform all their duties, as formerly, would become "tokens" whenever the legal standard gold coins were brought into general use; and the cost at which current rupees would in future be procurable, by the aid of bills or gold, would be greater than the market value of the silver contained in them.

27. In England our silver coins circulate, without question, at values 22 per cent., at the present moment, above that of their bullion contents. In France the five-franc pieces circulate, together with gold, at a rate of about 11½ per cent. above their bullion worth. In this latter case, the silver five-franc pieces are legal tender to any amount; but in both cases their value is maintained because the number admitted into circulation is limited. If it were not so in France, the five franc pieces would soon deluge the country, and every gold piece would be driven out of it.*

28. *3rd Objection.* That the circulation of coins at so high a nominal value above their intrinsic worth would be a most powerful temptation to counterfeits, or unlawful coining of rupees from true standard metal.

This objection is true, as far as it goes, but the evil would not be greater in India than it has been in England, more or less, for the last half century, without serious inconvenience; and only half what it is at present, with our silver tokens. Nor would it be greater than it now is in France, where the silver five franc pieces are overrated 11½ per cent., and are legal tender to any amount.

29. It is not at all probable that, within our own territories in India, any very large amount of unlawful coinage could exist without detection; and it must be remembered that, in order to impede the progress of the desired change, fifty millions of rupee pieces must be put into circulation annually.

* The position in India, if my proposal were carried out, would, at the first, be exceedingly similar to that of France at present. There would be a very large mass of rupees, legal tender for any amount, and circulating together with gold; but incapable of driving the latter out of the currency, because no more addition can be made to their quantity. They would also themselves be incapable of leaving the currency, because they would be of inferior intrinsic value to their denomination.

30. The objection, however, discloses a difficulty which may be found to exist with respect to the privileges we have conceded to one or two Native Mints—allowing them to coin rupees at their discretion; and it would be absolutely necessary, on the announcement of the change of system, either to insist upon their conforming to it by stopping the coinage of silver, or to take such measures as might be necessary to limit the admission of silver to their mints, or confine their coins strictly within the limits of their own domains: or to withdraw all their own currency, and supply them with a sufficiency of coins stamped with the effigies of the Native States.

31. *4th Objection.*—It has been urged by some that a change of the Indian standard, from silver to gold, is not desirable because, owing to the poverty of the people, silver is so much more appropriate as a measure of value, in their ordinary transactions; that gold cannot be reduced and subdivided so as to suit the petty dealings of the million, and bring the pieces formed from it into familiar and constant use amongst the people.

32. This objection is one which might have been entertained before the publication of Lord Liverpool's treatise (in 1805), and the establishment of the plan by which any number of different metals could be associated together in currency under a proper system of "tokens." It is needless now to explain that the use of gold does not in the least degree preclude, or interfere with, the use of silver for *smaller* payments, nor of copper, nor even of "cowries," all of which, to any required extent, find their places in a properly ordered currency.

33. The objector who urges the better adaptation of silver to the small transactions of a native Indian trader, not only forgets the conclusive answer to his objection supplied by the

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modern system of token coinage, above referred to, but also the very great defect of the rupee currency in regard to large payments. This is not a question of the transport of coins, as it has been occasionally stated, in order to be partially met by the facilities afforded by railways, but it is the question of "taking delivery" of large sums, which is found to be an intolerable inconvenience; so much so that we may say that it is, in practice, next to impossible for an officer personally to verify the contents of a treasury he is called upon to take charge of. But it will be observed that this is not the ground upon which a change of standard for India has been suggested, but, rather, the enormous disadvantage of maintaining two different standards for countries of such intimate connection and vast transactions as England and India; and the incalculable importance of a unity of coinage.

34. *5th Objection.*—Another objection which has been suggested is—1st, that the exclusion of silver from the mints would deprive merchants of the means of placing funds in India; and, 2ndly, if the rupees be raised in exchangeable value above their intrinsic worth, they would be unfit for payments out of India.

35. In regard to the first part of this objection, it may be observed that, when the only means of placing funds in India, besides the purchase of commercial bills, is confined to the bills drawn by the Council of India, and gold, the Secretary of State will have it in his power to meet every demand of that kind, at rates which he will be possessed of great power to control. Hitherto, what has been called the balance of trade has always been in favour of India, arising from the fact that it has always been found easier to push the sale of Indian raw products in Europe, than of European manufactures in India; and the difference has been made good by Council bills and bullion.

36. Taking into view the transactions of the whole present century, we may say that the exports of products from India have been sufficient to pay for imports and the demands of the Home Indian Treasury; and, from the unfailing experience of the past, we may be assured that they will for many years to come continue to do so. There has been a falling off for the last year or two, owing to special circumstances affecting some of the chief staple products—for instance, cotton, jute, silk, rice, &c.; and, at the same time, a somewhat sudden increase of the home demand; but we cannot doubt that the above-mentioned characteristic of the trade, depending as it does upon unalterable facts, will remain for the future what it always has been. Moreover, it is unnecessary to forego any important measure on account of a supposed inconvenience to commerce, which, if provided with due notice, can always take care of itself.

37. There will, therefore, be no difficulty in placing funds in India which it will not be in the power of the Secretary of State for India at once to remove, by granting bills; and the fact of these bills being the only means of remittance left, after the exhaustion of the ordinary commercial "documents," must lead to an enhancement of the rate of exchange, which would be limited only by the transmission of English or Australian gold; by means of which any amount of money could be at all times transmitted.

38. Upon the second part of the objection, it must be observed, that it is not proposed to make the least alteration in the present currency of rupees, which would continue legal tender for the largest amounts, as they are now. It might, therefore, be argued that, as regards external commerce, they would be in the same position, and as suitable for export as they have always been, and it is true that their value outside of the currency would not be in the least altered

by the measures proposed; but it must be admitted that they would not be useful for export after the exchanges rose, if the price of bar silver continued low, or went lower. In that case, the rupees would be like the French five-franc pieces, at present; they would assume the position of "tokens," representing more value in local exchange than their metallic contents. In the meantime, gold coins would enter the currency by slow degrees, first at a "batta" or premium, and eventually on a par with the silver rupee tokens. While the gold coins are scarce, foreign payments will be made, as they are in many cases at present, by means of fine stamped gold bars; of which the quantity at hand may be judged by the fact that the value of upwards of 86 millions of pounds sterling was absorbed by India in the last twenty years.

39. In addition to the above, if the suggestion made hereafter, in para. 48, of substituting gold for silver in the reserves for note circulation, be adopted, this objection would cease to exist. The Indian system would then correspond exactly with that of this country, and all necessary exports would be provided for.

It must be remembered that, as shown above, the tendency of natural causes for the whole of this century has been to require bullion remittances *into*, and not out of India. When the opposite state of things may occur, owing to fluctuations in commerce, balances will be, more or less, adjusted by Chinese, Australian, or other bills, by the Indian Banks.

I must, also, here repeat the caution just given, that, with due notice, commerce will take care of itself, and exports and imports adjust one another.

40. *6th Objection.*—It has been suggested as an objection that the exclusion of silver from the Indian Mints on the part of individuals would further aggravate the fall in its price, and tend to retard its recovery. To this it must be replied that, looking to the very considerable increase in the supply of silver

bullion, and the already decreased and diminishing demand for it, any *permanent* recovery of its price, for many years to come, is out of the question.* It is true that putting a check upon the deluge of India by silver will close one of the existing markets for its disposal, and tend to lower its price; but from the moment that the coinage of silver for private individuals is stopped, the Indian Mints being left open for the coinage of gold, the Indian currency will become independent of the price of silver bullion, and, to whatever further depth it might fall, would be unaffected thereby.

41. With the risk of so terrible a calamity before us as that with which we are now threatened from a continuous indefinite fall in the cost of our medium of valuation, it seems to be a paramount duty to seize the means of escape while they may be had, irrespective of all other considerations. If suspending the coinage of silver should fail to restore the exchanges to 2/-, it would certainly afford the means at any moment to *fix* the existing rate, whatever it might be, for ever, by lowering the terms for the admission of gold and submitting to the loss; * which, however large it might be, would be preferable to allowing the present system to continue, and running the risk of the rate sinking lower indefinitely. But there can be no doubt that, by persevering in a decided course, the entire restoration of the exchange may be achieved, and the whole loss avoided.

* *Vide* Mr. Hollingberry's Treatise on the Production of gold and silver, &c., &c. Page 111, paragraph 270, and page 116, paragraph 274.

* The loss here referred to arises from the defect of purchasing power of the Indian revenues in the markets of the world. Gold has a world-wide value, and if the ratio of the rupee to the sovereign be for ever fixed at ten to one, or 2s. per rupee, the annual income of the Indian Empire, which may be roughly stated at fifty crores of rupees, will be equivalent in purchasing power to fifty millions of pounds sterling. If, however, the ratio be fixed at a lower point, say for instance at 10.909 to 1, or 1s. 10d., the same income will be equivalent only to 45.83 millions sterling, or an annual loss of $4\frac{1}{6}$ millions, the capitalised value of which at 5 per cent. is $83\frac{1}{3}$ millions—at 1s. 8d. the annual loss would be $8\frac{1}{3}$ millions, at 1s. 6d. the annual loss would be $12\frac{1}{2}$ millions.

42. *7th Objection.*—There is one more objection which may be conveniently stated in the following question: How is it to be expected that merchants will take gold to the mints to be coined into pieces representing Rs.38 15As. per standard ounce, when the market price of the same gold may be upwards of Rs.42 to 43? To this it may be replied, that the price of gold in India is regulated by the rate of exchange. When a "demand" bill on London is worth 2/- per rupee, a British sovereign is worth Rs.10, and the standard ounce of gold Rs.38 14As. When the exchange falls to 1/9 per rupee or less, the sovereign rises to 11 or 12 rupees, and the standard ounce of gold to nearly 44 rupees. It is capable of demonstration that there is an inseparable connection between the Indian rate of exchange and the price of gold in Calcutta, so that when the London rate for a demand bill is 2/- per rupee, it is profitable to merchants to take Australian gold to the mint at Rs.38 14As. per ounce; and even sooner, to whatever extent gold coins can be sold at a premium. It is anticipated that the suspension of the silver coinage would soon raise the rate of exchange, and if so, the price of gold in India must fall, eventually, to Rs.38 14As. net, per standard ounce.

43. *8th Objection.*—That merchants and others will send out dollars and various foreign coins, and put them into circulation in spite of all the efforts of the Government to prevent it.

In reply to this, it must be observed, that no doubt the importation of foreign coins into India may be, and probably will be, tried, but the large balances of trade cannot be paid by these "uncurrent coins." A few might be sent out and sold for bullion purposes; but when it was found that there was no Mint to take them to, and that they were not receivable in payment of revenue, there would be great difficulty in getting rid of any *quantity*; and to pay balances of millions of pounds sterling, a resort to gold would be inevitable.

It may be remarked that, if the rupees be "appreciated," that fact implies a lowering of the price of silver bullion; so that there would be no special profit in sending out dollars more than any other bullion. They would sell for bullion purposes, just as bar silver would, but they would not usurp a place in, or interfere with, the currency.

44. *9th Objection.*—That if gold coins be struck of the same value as the British sovereign, and are authorised as legal tender for only ten rupees—in the first place, no one would take gold to the Mint to be made into such coins; and 2dly., that if struck and put into circulation, they would immediately be collected and sent out of the country.

The first part of this objection implies—

1st. That the current value of the rupee in India has already fallen "pari passu" with the price of silver; but this cannot be the case. It can only do so in time, and by the spontaneous action of Commerce enlarging the currency by sending out supplies of silver to be coined and added to it. This has hitherto been prevented by the increase of the drafts of the home Treasury.

2dly. It is implied that, because the gold coins become legal tender for only 10 rupees, they will only bring 10 rupees in exchange. This is by no means the case. If the current rupee is worth much less than two shillings, the gold coin will command a corresponding agio, or "batta," so as to realise its full value. The action of the State in coining gold for the merchants will be, at least, to give them a ready means of pouring into the markets, in a popular, authentic, and easily disposable form, an article of commerce for which there is a large demand in every part of the empire, which is highly useful in trade, and will therefore command its own price and value. Should gold not be taken to the Mint for coinage at first, this would not interfere with the ultimate success of the measure. It would soon

be found necessary for intermediate payments, and well worth the trifling cost of coinage.

The second part of the objection is based upon a forgetfulness of the fact that gold will only be used to pay balances of the transactions of commerce. Bullion shipments are only resorted to when all other shipments have been exhausted. If then, for example, it has come to pass that debts to the amount of one million sterling are due to India, and payment is made by sending out gold, the difficulty suggested is, that the same gold will be collected and sent abroad again. But it must be remembered that, if this be done, there will still remain a debt of one million sterling to be paid; and as all other means of remittance had previously been exhausted, this debt would have again to be paid by gold, and so on indefinitely. In the end, if the balances of trade should hereafter be what they have been for the last 38 years, at least five millions sterling annually (besides four millions of gold), gold will accumulate in India at that rate, by the ordinary operations of trade.

This is on the assumption that the accumulation is not artificially assisted by raising a loan and stopping the issue of Council bills, or otherwise.

45. 10*th Objection.*—That it would be a breach of faith for the Indian Government, having contracted a large debt in silver money, to force the acceptance of payment of the same in coins of another metal, and to pass a law enabling others similarly situated to do so likewise.

This argument has been fully answered by Sir William Mansfield (now Lord Sandhurst) in his Minute of the 8th March, 1864 (Chapters 3 & 4), published in the Parliamentary papers on the East India Gold Currency, ordered to be printed 28th February, 1865, to which reference is made, as it is too long for quotation. Moreover, it is obvious that no one could complain

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of the injustice of a law by which he was only compelled to *take* more than the true value of his debt, not to give it.

46. As many persons are apt to be perplexed by the idea that the rate of exchange is governed exclusively by the "balance of trade," it is necessary to point out how this operates, and to what extent it is limited in its action. The balance of trade can only affect the rate of exchange to the extent of the cost of transferring money from the currency of one country to that of another. When the two countries have their currencies based upon the same precious metal, gold, or silver, and there is no restriction, the cost of transfer will not exceed the freight and charges of transmitting and coining the precious metal, which charges are generally constant, and may be safely calculated; but when the currencies of the two countries are based upon different metals, there is introduced another element into the calculation, viz., the relative value of the two metals, which may give rise to great uncertainty; as is the case at present between India and England, owing to the sudden and considerable changes which have taken place in it. Fifteen years ago the charges of transmitting silver bullion to India were reckoned at $3\frac{1}{4}$ per cent., and for coinage 2 per cent., making a total of $5\frac{1}{4}$ per cent.; and if the rate of exchange tended to vary by more than $5\frac{1}{4}$ per cent., or $1\frac{1}{4}d.$ per rupee, it could be prevented by sending silver. Now-a-days, the charges of transmission do not exceed $1\frac{1}{4}$ per cent., which, added to the cost of coinage, makes a total of $3\frac{1}{4}$ per cent., but the rate of exchange in Calcutta for demand bills has fallen from 2/0$\frac{1}{4}$d. per rupee, to 1/8$\frac{1}{4}$d., or $16\frac{1}{2}$ per cent., of which 2 per cent. is difference in the charges, and $14\frac{1}{2}$ per cent. difference in the gold price of silver.

At present the balance of trade cannot affect the exchanges by more than $3\frac{1}{2}$ per cent. either way, but the influence of a change in the gold price of silver is uncertain and indefinite.

47. In the early discussion of the proposal to establish a gold standard and coinage for India, it was suggested that the principle of Act XVII of 1835, making 110 grains of pure gold equivalent to 10 rupees, should be carried into effect. This recommendation was founded upon the understanding that it would correspond with the relative values of the two metals at that time. Since then, and at a later date (1869), a careful examination of the data for the preceding fifteen years, showed that 113 grains of pure gold (contained in the sovereign) were very nearly equal to the true value of 10 silver rupees in India,* and as this corresponds with the value of the British pound sterling, it is a fortunate circumstance that it can be carried out by the simple ratio of 10 to 1 for the rupee and sovereign. This is all the more important from the fact that, to establish the 110 grains of pure gold, in lieu of the sovereign containing 113 grains, as equivalent to 10 rupees would, besides preventing the unity and simplicity of the relation between the Indian and English currencies, diminish the purchasing power of the Indian revenues by nearly one and one-third (1,328,122) millions of pounds sterling per annum.

48. It may be as well now to mention that the action of the proposed measure for the restoration of the value of the currency might be in some measure facilitated if any considerable part of the currency notes now in circulation were temporarily withdrawn. To do this would, however, involve an expense, and it might not, therefore, be convenient to resort to it, unless it were deemed advisable to make a sacrifice to expedite the change. It is not necessary to success. It would also be of advantage to substitute gold for the reserves to be kept against "gold notes," with the view to its being available

* *Vide* Report of Conference, held by the India Committee of the Society of Arts, 1870; Appendix, paras. 32 to 34.

for export when required, or employed in circulation whenever the time arrived for the gold coins to be declared legal tender at the option of the *creditor*, as well as the debtor, either in whole or part of payments.*

49. It is an important fact that the proposed measures, even supposing them to be absolutely ineffectual for the object contemplated, could do no harm. If the decline in the price of silver should hereafter continue, the Indian currency, being isolated from it, would remain, at the worst, unaltered. If the price of silver, on the contrary, should rise, and the exchanges approach their former rates, this circumstance would tend to help the consummation desired; and at any moment the coinage of silver for individuals might be resumed, when affairs would revert to their present position. The acquisition of the Indian currency, by the shipment of silver bullion, being put a stop to, a much larger demand would exist for the bills of the Indian Council, and the rates could not fail quickly to reach the point at which the cheaper gold from the Australian mines would find its way to the mints. The Indian currency would then be restored to, and permanently fixed at the value which it has been proved to have possessed for the 15 years previous to 1870, and from which it would never, in future, vary more than to the extent of the cost of the shipment of gold either way.

50. It will have been observed that in all the preceding remarks the arguments have been made to embrace the supposition that the market value of the rupee now current in India has fallen in comparison with goods, equally with the gold value of the metal of which it is composed, though it has been pointed

* It is suggested that, when it is considered that a sufficiency of gold coin is in circulation, creditors may be empowered by law to demand a certain portion of their debt in gold. For instance, at first one-fifth, later on three-fifths, and finally the whole. After which silver would be restricted as to legal tender.

out in para. 44 (1st) and in the note to page 12, that this cannot really be the case. In fact, if a general comparison be made of the prices of articles in the Indian market before and after the late decline in the price of silver, it will be found that they are at present (Calcutta, March, 1876), if anything, lower than before, and it has been explained (para. 44–1st) that they will not rise until the currency has been swelled by the absorption of a sufficient amount of silver. To bring the value of the rupees into correspondence with the present rate of exchange would probably require the addition of fresh coins, besides the normal requirements of commerce, to the amount of 20 to 30 millions of pounds sterling; and, hitherto, any very large additions have been prevented by the increase of the drafts of the India Council.

51. It may be presumed, therefore, that at the present moment the Indian currency is not materially depreciated, but only in the position of being about to be so, by the augmentation of its bulk, through the importation of silver bullion, hitherto checked by the Council Bills. This prevention and check cannot very long continue, because the abnormal state of the exchange between India and Europe stimulates exports from India, and discourages imports into it; and if matters continue as they are, will enlarge the balance of trade in favour of India over and above any drafts which are likely to be drawn.

52. It is at the present moment, therefore, before any very large additions have been made to the Indian currency, that we have the power to interfere with the certainty of success; the object being prevention rather than cure. If nothing be done, then, after the Indian currency has been filled up to a level corresponding with the relation of silver to gold, and prices have risen accordingly, the rupee will have sunk to its value in bullion plus 2·1 per cent. (seignorage) and, ingress and egress, in and out of the currency being free, will remain so. If

it should happen that the future permanent gold value of silver should be that indicated by the exchange of 1s. 8d. per rupee, the effect would be that the Indian revenue would be condemned to a perpetual loss of value of $8\frac{1}{3}$ millions of pounds sterling per annum.

53. The argument is advanced by some that the fall in the price of silver is a mere temporary fluctuation, and that if we have patience we shall, sooner or later, see matters restored to their former position. Let us suppose this possible, but it may be asked, Does it meet the urgency of the claim to remedy the inherent vice of the arrangement which can at any time give rise to the consequences of these fluctuations? Can any one who is aware of the enormous losses and distress which have been occasioned only thus far, contend that it is right to leave matters in their present state, when it is certain that the mischief may be prevented and put a stop to for all future time by a single act of the Indian Legislature, involving not the least shock or disturbance, and effecting a saving of the heavy losses now experienced?

54. It is to be feared that these proposals may be met by innumerable doubts, but this is not a time when it will be safe to indulge in them. Decisive action is called for, but the stake is large, and, in so very important a matter, the course of the Government ought not to be influenced by the mere misgivings of many, who most probably doubt because they do not clearly see their way. It would be a very serious misfortune if, for want of the courage of decided convictions, the only remedy against the very terrible calamity now threatening the Indian Empire were set aside on account of difficulties to which we unadvisedly attached undue importance.

J. T. SMITH.

33, NEW BROAD STREET,
1st May, 1876.

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ESSAY No. 2.

CONTAINING ANSWERS TO SOME OBJECTIONS AND FURTHER EXPLANATIONS OF THE PROPOSALS CONTAINED IN THE ESSAY DATED 1ST MAY, 1876.

1. The object of the accompanying remarks is to afford an explanation of difficulties which have been suggested in reference to the proposals contained in my essay of the 1st May, and some of which are ably stated in the following extracts from a letter with which I have been kindly favoured by a gentleman who has made the various questions of political economy, and more particularly those connected with currency, subjects of his special study. His criticisms are as follows :—

"First one word as to fundamental principle. The metal of every legal currency does its work as a commodity, by means of its value in the metal market. A sale for metallic money is an exchange by pure barter of two commodities of equally supposed value. It is absolutely impossible to give any intelligible and conceivable explanation of metallic currency, except upon the perception of this nature of the action of money." "Convertible paper-money acts as a ticket giving possession of the substance—the commodity—on demand. Inconvertible paper money, as the American dollar, is also a ticket for a commodity acknowledged to be due, but as the time for giving it is not defined, it is bought as a debt, subject to uncertainty of actual payment. It passes as such. When there is too much of such debt for use or currency, it drops in value from excess, as it cannot be got rid of."

"My own experience illustrates this truth. I paid a sovereign to the proprietor of an hotel at Geneva a few years ago. He took it, and then asked me whether I had a Victoria sovereign, as this one was a St. George and the Dragon, of George III. Surprised, I asked for the reason. 'Sir,' he said, 'this sovereign will be melted down before to-morrow evening. The new sovereign will prove full weight, the dragon will be light.' In other words, the sovereign paid my bill as a lump of yellow metal, at its value in the metal market."

"No law can alter this process. Aristotle, ages ago, understood the truth, and described coinage as a contrivance to save the trouble of weighing. Nothing could be more accurate. Ergo, coinage will not do what you desire in India. Nothing but demonetisation will, unless silver recovers its value, and is steady, which it will not be."

"It is quite impossible by mere cessation of coinage to bring a rupee worth 1s. 6d., as silver, to two shillings as coin. The coining in that case would not cease. Excellent rupees would be manufactured by a new style of forgers, as good as possible, and they would flood every Indian market. No art of man can make silver worth 1s. 6d. in Europe, largely and permanently worth 2s. in India. The holders of Indian gold would hold it tight, except upon a premium, which would practically make the rupee worth 1s. 6d. only. You would not get gold coin out in the place of silver. Mr. Seyd's reference to a diminution of green backs, accompanied by an increase of value does not apply. There were not two prices for the same article; the paper dollar had its American value, and none other. In the India case there are two values of the rupee, one, supposed, in India, at 2s., the other all over the rest of the world at 1s. 6d."

"Now the action on prices would be certain, though slow and capricious during the period of transition. No European would sell goods to India for the same number of rupees calculated at 2s. He would have to bring the rupees to Europe at a heavy loss, for they would count only as 1s. 6d. in every English market; and he would not be able to get gold except at a premium, which would be no cure of the evil. Gold would never come out in India in exchange for 2s. rupees, or ten of them for a sovereign, when the rupees were worth only 1s. 6d. everywhere else."

"I see no remedy but the demonetisation of silver, accompanied, to ease the transition, by the issue of small convertible notes."

"If, indeed, India had no foreign trade, and no permanent debt, but only village every-day transactions for ready money, then she might endure the evils of an ever changing value of her currency with comparative ease and indifference. The alterations of the currency's worth would be very slow, and the loss would be distributed in small fractions all over the community. But large and abiding debts, great freight trade, much credit and the like, would inflict terrible losses and inconveniences."

2. In the above, the difference between my correspondent and myself is that his remarks apply to the cosmopolitan, and mine to the local value of coins; for although it is quite true that, when the introduction and withdrawal of coins from circulation is absolutely free, Aristotle's definition of coining applies, and the coins circulate and pass for only their world-wide metallic value; so it is equally true that when the supply of the coins is strictly limited, they may, if legal tender, have a higher local value, either when, as in the case of our shillings and half-

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crowns, their worth is regulated by that of a superior currency; or, as in the case of inconvertible notes, their value is regulated by the proportion of the supply to the demand. My correspondent's personal experience in Geneva merely proves this, that outside of any country in which a coin might possess a local value, it passes only as a piece of metal.

3. Hence it appears, that the principles which are quite true as applied to the original and primitive establishment of current coins, require considerable modification when they are brought to bear upon some of the methods for measuring and transferring values subsequently invented, and which have long received the sanction of successful experience. It will be necessary to examine these in detail, in order to understand properly the proposals under consideration.

4. And, first of all, it is very necessary to examine closely the meaning of the statement that coins circulate and pass for their simple metallic value. What is that metallic value? Is it not the aggregate of *all* the expenses *unavoidably* incurred in bringing metal to the market? It has been well explained in regard to metallic gold, that "If the miner fails to obtain "for his gold ore a quantity of goods sufficient to replace what "the mining has cost him, with a reasonable profit for himself, "he gives up the business and abandons the mine.*" The same is true also with regard to the coins. They must exchange in the market for a sufficiency of goods to replace *all* the expenses unavoidably incurred in bringing them there, or they will not be brought. Fewer coins will then be produced, "the demand for them continues, they rise in value and exchange for a larger quantity of other commodities; that is, the price of every thing sold falls,"† till the equilibrium is gained.

* Bonamy Price, Currency and Banking p. 20.

† Ibid p. 21.

5. Let us now go a little further, and say that if the metal of which the coins are struck should cost the merchant double the present expense, the coins (*cæteris paribus*) would exchange for double the number of goods; and the same would also be true whether the tax were laid on the metal at the mine's mouth, or upon the coin at the mint's mouth, so to speak. If it were *absolutely impossible* by any means whatsoever to procure a sovereign, weighing 123·274 grains of standard gold, without surrendering 246·548 grains of the same gold, the sovereign so obtained would exchange for double the amount of goods now commanded by it.

6. It would be no answer to this argument to say that, in the case of a seignorage or tax, the coins would not be worth more, because no waste actually occurred, and the number retained by the State are put into the market; for it is not the produce of the whole bulk of metal delivered to the Mint, but only that part of its produce which the miner receives for his share which influences the further supply.

7. Hence we see that a tax, such as a "seignorage" *if it be quite unavoidable*, necessarily adds to the market value of a coin; and that it is possible for a coin, under certain circumstances, and within the territories to which such circumstances apply, to command goods in exchange to a greater extent than the mere metallic value of its contents; although it is true that, generally, the principal or standard coins of every country are manufactured for the public at a trifling expense, and it is contrary to sound policy to burthen the chief instruments of exchange with any tax whatever.

8. It is possible, therefore, by seignorage to cause a metallic currency to pass in local exchange for goods at a higher value than that of its metallic contents in the metal market.

There is another case in which the same phenomenon may occur.

9. The quantity of current money required by any country depends upon the number of its cash transactions, the rapidity of circulation, the means of economising cash, and a variety of circumstances which vary in different countries, and and at different times in the same country. When the currency consists of full weight untaxed metallic coins, the quantity of currency regulates itself, by a self-acting process, through its operation on prices. When such coins are in excess, and do not exchange for the same value of commodities as they do in other countries, they are withdrawn and sent abroad; when they are deficient, they are found to exchange for more value of commodities than in other countries, and they are consequently brought in from abroad, and the equilibrium is restored. The variations in the value of the coins, as between any two countries, can only proceed as far as the cost of transmitting and transferring the coins from the one currency to the other; but when they are of full weight, and passing for their metallic value, they will never exceed that.

10. Let us now consider the case of a country in which the currency consists of inconvertible notes. It will be at once perceived that, with them, the self-acting regulating principle just mentioned does not exist. It would, no doubt, be possible to frame regulations by which the issues and withdrawal of the notes should be so regulated that the current value of them, within the country, should be uniformly kept equal to that of full weight metallic coins of the same denomination; as was the case with Bank of England notes for many years after the suspension of cash payments; but this duty might be neglected, or for political purposes abused, and the consequence might be variation and uncertainty in the value of money, and all the

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injustice and evil consequences attending the disturbance of contracts.*

11. Whenever, from the causes just referred to, or any others, the limitation and regulation of the quantity of inconvertible currency have not been attended to, and the notes have been issued in excess, that is, beyond the requirements of the trade of the country, the result is invariably found to be that, although they may have the privilege of legal tender, their value in exchange for commodities varies in inverse proportion to the amount of the excessive issues.

12. The converse of this is also true, that when an inconvertible note currency has been issued in excess, and has partially lost its power in exchange for commodities, the gradual withdrawal of part of it has the effect of restoring its value, until by a due limitation, it may be brought to the full value of standard metallic money. In like manner also, if, when all the other circumstances remaining the same, the requirements of trade very largely increase, without a corresponding increase in the quantity of the circulating medium, the result is that the latter becomes "appreciated," and attains a greater power of purchase in the market, in proportion to the greater number of cash payments which have become necessary.

13. The instance which was referred to in my first paper (para. 25) of the "appreciation" of the American Greenbacks by mere reduction of numbers, is objected to, and stated not to

* The objections urged against an inconvertible paper currency properly apply to an unregulated one. When such a currency is strictly limited, and maintained of the full value of coins, it effects an economy to the State employing it, for it performs the duty of metallic money without the cost of it. The chief danger of inconvertible notes consists in the risk of over-issue. This would be impossible with the rupees when they became tokens, as the coinage of them being stopped, they would cease to be supplied, and the self-acting regulation of the currency would be effected and secured by gold.

apply, because "there were not two prices for the same article. The paper dollar had its American value and none other. In the India case there are two values of the rupee, one, supposed in India at 2s., the other all over the rest of the world at 1s. 6d." But upon this I would remark that the instance not only applies, but does so "*a fortiori*." It was brought forward to show that mere reduction of numbers would "appreciate" the instruments of exchange, and the fact mentioned by Mr. Seyd proved that mere reduction had improved the American greenbacks 77 per cent. To which might perhaps have been added the case of Bank of England notes, previous to the resumption of cash payments. If bits of paper, which are worth next to nothing, and have no definite engagement to pay, can be made more valuable by restriction, surely bits of metal may be so too. It could hardly be contended that if the American greenbacks had been engraved upon tablets of copper, or aluminium, or stamped upon any fibrous material having a decided value in the market, that fact would have *prevented* their appreciation as money.

14. There is a third case in which coins may circulate and exchange freely for commodities in a greater ratio than that of their metallic worth; and that is when they are subsidiary to another superior currency, by which the exports and imports, and consequently prices in a country, are regulated; and in subordination to which smaller payments are made. Of this character is our own silver currency.

15. It is hardly necessary to explain, that just as an inconvertible paper currency, so a metallic token currency may circulate in local exchange at a higher value than that of its metallic contents; and, in regard to that part of its value in excess of its market price, it would be seen to be the same in principle as an inconvertible paper currency, if the latter were supposed to consist of notes stamped upon some material which

possessed a sensible value in the market, independently of their value as legal tender money.

16. When, therefore, it is stated that a sale for metallic money is an exchange by pure barter of two commodities of equal supposed value, and also that it is impossible by mere cessation of coinage to bring a rupee worth 1s. 6d. to 2s. as coin, an exception must be made in respect of the three cases above-mentioned, in which either, firstly, the local value of coins has been increased by seignorage, or secondly, a restricted currency has by limitation been raised to a higher local power of exchange than the market worth of the materials composing it; or thirdly, when it is established in a position of subordination to a superior currency, by which latter the values of all commodities are regulated.

17. Now in both these two* latter respects my proposal for the restoration of the Indian currency is free from the difficulties which have been supposed to attach to it. First, it is proposed to completely restrict the further issues of silver coins; and it has been shown that, owing to the improvements under our administration, the trade of the empire has increased and is increasing with so much rapidity, that the requirements for circulating medium would probably ten years hence, be double what they are present; so that even if the rupees were now depreciated one half, there would be reason to expect that, in that time, at all events, they would have resumed their normal local value; in addition to which the fact is stated that up to a very recent period (March 1876) it has been ascertained that the rupees had not *on the average* become materially depreciated; so that little or nothing has to be done, except to

* I might have said "In all three respects," for Indian rupees are now in the same position as if they had been coined under a seignorage of 24½ per cent.

correct the inequalities which the disturbance of the exchange may have effected.

18. But upon this head it is objected that we cannot restrict the coinage of rupees for India; that "the coinage in "that case would not cease. Excellent rupees would be manu- "factured by a new style of forgers—as good as possible, and "they would flood every Indian market." Upon this point it may be observed that, although it is true, that a strong temptation to forgery would hereafter exist, yet it is also true that the temptation and risk would not be greater than they are at the present moment, and have always been in India since the year 1835. It is not supposed by any one that the existing rupees are now worth more than usual, but, if anything, less. Now, the gain by forgery being the whole value of the rupee, minus the expense of the counterfeit, it is clear that this gain could not be greater than it has always been, if the rupees never exceed their former value. But instead of the forgery by counterfeit coins, there may be hereafter the new temptation more especially referred to by my correspondent, namely, that of unlawful coining from true standard silver. This would be a crime of a very different character. A Native workman, using the more fusible inferior metals, may, without much difficulty, produce a tolerably fair imitation of a rupee, capable of being got rid of under favourable circumstances. In that case, reckoning, for argument's sake, the rupee is worth 2s., his profit would be for each counterfeit coin 2s., less the value of his time and materials. He could not produce so good an imitation of a rupee with standard silver without much more labour and the help of machinery, as it is an exceedingly difficult coin to execute in true metal, and his gross profit in this case, instead of being 2s., would be only about 4d. or 6d. Thus we perceive that the temptation to unlawful coinage of genuine rupees could not apply to the solitary forger with his few rude im-

plements; but to be of any benefit, must be undertaken on a large scale, and with good machinery. As has been remarked in my first essay, para. 29, this could not occur in India without detection, nor could the coins be imported from abroad, subject as they would be to discovery and confiscation at the Custom House. Nor could any Native State in friendly relations with our Government permit or countenance a fraudulent imitation of our coins in a way that we could not immediately and for ever put a stop to. Remembering the comparative absence of the necessary mechanical appliances and skill, it may be safely asserted that India would be far safer from fraudulent coinage of that kind, than England, France, America, and all other countries using silver token currency, and which are liable in the same way; and that the idea of India being supplied dishonestly with any thing approaching to 50, or even 5 millions of coins per annum is quite unworthy of consideration. Hence I venture to assume that it is quite possible to restrict the coinage of rupees in India, and that the necessary consequences of restriction may be safely calculated upon.

19. *Secondly*, It having been shown (paras. 12 & 17) that, even if the rupees in India were at present materially reduced in value, which lately they were not, they would be "appreciated" by restriction till they reached their former normal powers of local exchange, it has now to be stated that, independently of this, if the proposals I have made be carried into effect, the rupees would, as a matter of necessity, re-acquire their normal value, as the subordinate tokens of a gold standard currency.

20. Here I shall be met by the exclamations, 1st, "How can you have a gold standard currency without gold? 2ndly, Where is the gold to come from? 3rdly, Who can foresee the consequences of 'taking so momentous a step' as a change of standard in India?"

21. It will be well to meet all these and other similar terrified expostulations by a few frank statements; and in regard to the first, it must be remarked that a gold standard monetary system does not, necessarily, imply the general use, or indeed, any use at all of a gold currency. The standard of a country may be changed from silver to gold, and from gold to copper, lead, tin, aluminium, or any other metal, and still the actual currency, whether coins or notes, remain the same. The standard depends upon, and means, the commodity or article, by the surrender of a certain amount of which the current legal tender money is obtainable; and the value of which commodity the coin consequently conveys and exchanges for. A note which should be procurable *only* by the surrender of 123·274 grains of gold, that is, at the rate of £3. 17s. 10½d. per ounce standard, and redeemable at the same rate, is of the same value in exchange as a sovereign, and if the whole currency consisted of such notes, they would constitute a gold standard currency, without a single gold coin belonging to it.

22. In Scotland and Ireland this is, in a rough way, approximately the case, as the people there generally prefer the use of notes to coins. It is true they are not inconvertible, and it might be denied that they would circulate if they were; but while I would remark, in passing, that if they were properly restricted in number they would do so, just as the Bank of England notes did, I must add that the objection would be quite irrelevant, as the only object of mentioning them here is to show that a gold standard currency (not a standard gold currency) may exist without the indispensable use of gold coins.

23. It is possible that, in any country, a gold standard currency might be established without the aid of a single gold piece in circulation. If £1 legal tender notes were delivered on the deposit of standard gold bullion at the rate of 123·274 grains for

each note, and if they could not possiblybe procured in any other way, they would command in the market the same purchasing power as our present sovereigns; and they would do this even without being payable on demand, provided that, after the currency had been stocked with them, the demands of the country for circulating medium never diminished, however slightly; for the moment that the notes began to be produced in excess, so as to be slightly impaired in value, it would be a loss to any one to give gold bullion in exchange for them, and they would cease to be produced. Hence, although in a country like England, where, owing to innumerable circumstances, the demand for cash may be very variable, and the regulating check of payment of notes on demand is highly necessary, on the other hand, in a country like India, where the commerce is advancing with rapid strides, and the demand for circulating medium is constantly increasing, the want of such a check is not so important, and its *temporary* suspension of no consequence at all. The greatest apparent evil of an inconvertible currency is when there is a want of bullion for export; and as a self-acting means of securing the unalterable sufficiency of the note, it would be better, in any permanent arrangement, to make it by law convertible into bullion. At the same time, it must be observed that, upon the hypothesis that the notes are kept fully up to the value of gold coins, there would be no loss in purchasing bullion, for export, in the market.

24. Just as the business of a rapidly prospering country could be transacted by means of paper tokens, as above, so could it also be managed by means of metallic tokens; and all the more certainly if the metallic tokens were already in the hands of the people, and were readily accepted by them in exchange for the full value they originally cost, and at which only they could be increased in number, as the daily enlarging requirements of commerce called for them.

25. Such is the position of India at this moment. Its inhabitants are in possession of a currency, which, up to a recent date, was still circulating and received at the value of its original cost; and if the necessary change be not postponed too long, but measures be promptly taken to secure that the cost of procuring rupees hereafter shall be not less than what it formerly was, before the decline in the value of silver, there would be no difficulty in maintaining their original value, and causing them to take their place as subordinate parts of a superior currency, to be afterwards gradually supplied, and founded upon a gold standard.

26. By the measures proposed, the Government would not be called upon to provide any portion of the metal required; and hence the first question to which I have referred in paragraph 20 meets with an answer, which shows that the standard of value of a country may be changed without the acquisition by the Government of the new metal constituting it. The second question also is answered by the above remarks. The parties who propose it are evidently ignorant of the fact that the Government of India, as a rule, have nothing whatever to do with the provision of the precious metals to be coined, any more than of the letters carried by the Postal Department. Parties engaged in commerce, chiefly, and all the public enjoy the privilege of having the precious metals coined, and it is therefore from the public that the metal would be obtained for any coins required by them.

27. It may be as well now to draw attention to the fact that the standard of value is a measure of the labour and expense, that is, "capital" expended in producing articles in a market for sale; and that the Royal metals have been used for the purpose of this measure because, together with other qualities, they have been for lengthened periods nearly uniform in

their relation in this respect to one another and all other commodities; but we may add that any other substance equally convenient would have answered the purpose. Supposing, for instance, Platinum had a perfectly steady, and uniform, and readily saleable value of 30s. per ounce, and it were thought desirable, besides the English gold standard, to establish also that of Platinum. Apart from legal objections, which might be innumerable, there would be no difficulty in declaring by statute that coins might be minted without charge, containing as many grains of platinum as would be *precisely* equal in value to the 123·274 grains of standard gold contained in a sovereign, and should be admitted into circulation, having the same legal tender as our sovereigns. When the public had become familiarised with the use of them, they would pass current freely, and no injury would be done; for it is assumed that they would cost precisely as much as sovereigns, and be readily saleable for as much. But this would be a double standard. If, after a time, when the platinum coins were fully established, the reception of gold by the mint were stopped; that would constitute a change of standard. Admitting all the particulars of the hypothesis, it is conceivable that the change might be effected without disturbance or injury to any one.

28. As an illustration of the propriety of the proposed interference on the part of the Government, let us suppose that, owing to some unforeseen convulsion of nature, it were discovered that the length of the pendulum vibrating seconds, on which our standard yard measure is founded, had gradually declined, from 39⅛ inches to 27 inches, and it were well known that innumerable contracts founded upon the legal standard had been vitiated by the change, which was still going on, to the enormous loss and distress of the commercial world. Can we conceive it possible that the Government would hesitate to take immediate measures for substituting in lieu of the defaulting standard, the equivalent measure of some other more reliable one, such as

the corresponding portion of the earth's axis, or the French metre? They would be satisfied that in faithfully re-establishing a measure of correct dimensions, they were not only not incurring a "momentous" responsibility and creating a "revolutionary" change, but that they were simply doing their duty by arresting the mischief and restoring order.

29. Admitting, then, that it is the duty of the Indian Government to guard the standard measure of value, and prevent its alteration; that is to say, in other words, to keep the labour and expense, or the *cost*, of procuring rupees as much as possible constant and invariable, it is obvious that when the cost of procuring the rupee has become less, it is indispensable to its truth and accuracy as a measure of value that it should be restored to what it was, and uniformly kept so, as long as it is retained as a measure. Ten years ago the cost of procuring, that is the value of 10 rupees, was steadily the same as that of half a quarter of wheat worth 40s. per quarter. Since that time the cost of the rupees has fallen 23 per cent., and it would appear to be clearly the duty of the Government to see that they are restored to their former cost and value in India, so as to command the same half-quarter of wheat and other commodities as before; just as much as it would be their duty to restore the truth of any other standard measure. This duty might be fulfilled without changing the standard, by increasing the charge for coining silver, more, and more, as the latter became of less and less value in the market; or by an import duty on silver bullion and uncurrent coins; but as these might give rise to opposition, it is satisfactory to know that they are not necessary, and that the required improvement can surely be brought about by the "appreciation" of the rupee and the gradual rise of the exchanges.

30. We must remember that the rate of exchange with India depends upon, and in fact *is*, the price at which current rupees can be procured. When they can only be had, as pro-

posed, by delivering an ounce of standard gold, worth 933d., for 38 Rs. 14as., every rupee costs and becomes in currency worth 24d., and will for ever continue worth that, unless admission into the currency should at any time be made cheaper. The rupees cannot possibly leave the currency, as they would be comparatively worthless outside of it; but they will purchase, at the same rate which was given for them, viz., 38 Rs. 14as. per ounce, gold which may be required for barter or export, till there is a plentiful diffusion of gold coins available for the purpose.

31. Another objection pointed out by my friendly critic has no doubt proved an obstacle in many minds, and it is expressed in the following sentences :—"Gold would never come out to India in exchange for 2/- rupees, or ten of them for a sovereign, when the rupees were worth only 1/6 everywhere else." "The holders of gold would hold it tight, except upon a premium, which would practically make the rupee worth 1/6 only." Now, in answer to this seemingly formidable objection, it is only necessary to draw attention to the fact that the commerce of India has for the last eight years required returns in silver and bills at the rate, on average, of 17* millions of pounds sterling per annum. That is the amount which it has been absolutely necessary should be obtained directly in metallic currency, after the exhaustion of all means of making returns by goods. Such being the case, when 17 millions of pounds sterling must be had in rupees, and can only be obtained by Council bills or gold, it is obvious that the rate of the Council bills must rise to that of gold, or 2s. per rupee. When that rate has been arrived at the price of gold in India *necessarily* falls to 38 Rs. 14 as.†; and the rupee is worth 2s. in gold and everything else. So far from a premium or "batta" on gold interfering with my proposed plan; it is contemplated and in-

* Vide Report of Committee on the Depreciation of Silver, pp. 32, 33.
† Vide Appendix, para. 18.

tended to be rather an assistance to it.* If it should be high at first it would facilitate the introduction of the gold; and as the rupee became "appreciated" and established at its true former value, and the supply of gold coins more plentiful, it would gradually fall till it disappeared entirely; after which the gold coins would in due course be made demandable, and the payments in silver more or less restricted.†

32. The remark is made that there is no remedy but demonetisation, to which it may be replied that my proposals do in fact amount to nothing less than demonetisation; but it is demonetisation altogether free from the very serious difficulties which have accompanied it on some occasions. When it is resolved by a state possessing a full-weight silver currency to change the standard to gold, and reduce the silver coins to a subsidiary condition, it is necessary to call in and recoin the latter, in order to make them of less value than their denomination outside the currency, and so prevent all the evils of a double standard. But in the case of India at the present moment, this, fortunately, is quite unnecessary; because hitherto, although our rupees have retained the high value they formerly possessed, and which would be embodied in the future gold coins, they are already of about 23 per cent. less value outside the currency than

* Vide 1st Essay, paragraph 44. 2ndly.

† In India gold coin would be hailed with gladness by the people, but they would at first be used chiefly for hoarding and transactions with foreign traders. For years to come, the vast bulk of the internal transactions of India will be carried on by silver, the circumstances of the country being very different from those of European nations. As long as the supply of the silver currency is in the hands of the Government, the use of gold coins will be capable of being, in some measure, regulated. If the supply of silver currency be overdone, the gold will leave the country; if it be kept short, more gold will be brought in again. This would only take place slowly, and by the action on prices; and the scarcity or abundance of the supply of gold to meet the wants of the people would be indicated by its commanding an agio. But it must be remembered that, independently of relative values, a premium upon new coins is unavoidable, at first, to meet the reasonable profit of the money-changer.

the new denomination, as part of a gold standard currency, would give them, and they would remain immovably fixed in the currency as long as they lasted. If, indeed, my proposal involved the necessity of recoining the whole 1,500 millions of rupee pieces now in India, in addition to the fresh supplies of silver brought in by commerce, it would be a formidable undertaking; and it would be a very expensive process also, as there would be no room for any profit. But happily, as just explained, no such recoinage would be necessary; the existing rupee currency would go on fulfilling its functions without any change, except a very gradual appreciation, or increase of exchangeable value; so gradual indeed that the vast bulk of those habitually using the coins would be utterly unconscious of it.

33. Although not referred to by my able correspondent, I think it may be of some use if I here notice the proposal made by M. Cernuschi for the establishment of what he has termed bi-metallic money.

34. This project appears to be, that an agreement should be entered into by all the principal nations of the world to establish double standard currencies, on the basis of the free coinage of gold and silver, in the unalterable relation of $15\frac{1}{2}$ by weight of the latter, for one of the former; and the main argument in support of the scheme is that, if it be carried out, the demand for silver would be so much increased, and that for gold so much diminished, that they would gradually approximate to one another in value, owing to increase and diminution of supply, and in the end would settle down in the ratio fixed by the law of all countries.

35. This proposal may perhaps be very tempting to France and Germany, at the present moment, as they possess large masses of silver currency they wish to dispose of; for it would give the silver a status and value it is not likely to attain in any other way, and save them from very heavy losses. It might

also be tempting to India, if it were necessary to get rid of her silver currency to establish gold, which fortunately it is not. But let us look at the suggestion in a practical light, and judge by the consequences necessarily involved in it, whether there is any probability of its early successful accomplishment.

36. Even if we were to admit that, supposing the measure carried out to its full extent, it would be attended with all the advantages claimed for it by its author, yet it would be enough to say that as it essentially requires the consent of so many of the nations of the world, the time unavoidably spent in negotiations before the result could be accomplished would forbid the idea of resorting to it as a remedy for the present Indian difficulty, which urgently demands immediate action. Let us assume, however, that this difficulty does not exist, that universal consent has been obtained, and laws universally established upon the basis required ; and even, moreover, let us for argument's sake, grant that the results contemplated have taken place, and that the two metals have become finally settled in their relations to one another, namely, in the ratio of $15\frac{1}{2}$ to 1.

37. Let us further, too, for argument's sake, allow that the two metals in approximating to one another, yield equally ; that gold, from the diminution of demand, falls in value as much as silver by the increase of its demand is appreciated ; and also that they start from the present position of things ; in other words that before the new system and laws come into operation, there is no further loss of the value of silver, which will therefore be reckoned at 48d. per standard ounce ; and, considering that neither the French francs nor the German thalers have been yet sent to market, this is making a very large concession ; the result to Great Britain would be as follows :—

38. If the price of standard silver be 48d. per ounce of 444

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grains, that of the ounce of pure silver containing 480 grains is 51·8919d., and if the price of standard gold containing 440 grains be 933d., the corresponding price for the ounce of pure metal is 1017·818d. Hence the price of 15½ ounces of pure silver is 804·324d. and the difference between that and the ounce of pure gold is 213·494d. If we suppose the silver to rise, and the gold to fall equally, so as to meet half-way between their present positions, the result would be a declension in the present value of gold of 106·747d. out of 1017·818, or 10·487 per cent., in which ratio the pound sterling and every other value connected with it would be impoverished.

39. It is true that such a change *might* be effected, and that tables of compensation might be prepared for the adjustment of every value and of all contracts in the kingdom; but going back to the position in which we were just now placed, before the enactment of any law upon the subject, it will be evident that if the rectification of the Indian exchanges be made dependent upon the agreement of the British public to so large and complicated a measure as would be involved in the adoption of the bi-metallic system, it would be tantamount to the postponement for years of a remedy urgently required within a few weeks; and that even if it were sure that the bi-metallic system would be eventually adopted by the whole world, it would be absolutely necessary to legislate in the meanwhile to remove the present immediate and urgent distress in India.

40. If I might without impropriety venture to express an opinion as to the course to be adopted by the advocates of the bi-metallic system, I would very respectfully observe that if, instead of pursuing an attractive theory, they would adopt the arrangement proposed for India, namely, allow things to remain as they are, continuing the legal tender of both

metals, but prohibiting the future coinage of silver except upon the vote of the representatives of the nation, they would do all that is practicable towards lessening the evils of the sudden change in value of the precious metals, and provide fully for the wants of commerce by an arrangement differing almost imperceptibly from the existing system.*

41. Before concluding, I think it may be very desirable that I should succinctly state some of the objects which it is necessary to aim at in arranging a plan for the restoration of the Indian currency, the difficulties connected with a change, and the dangers to be guarded against in carrying it out: and at the same time explain how these have been foreseen and provided for by the measures I have endeavoured to advocate. The proposal being to establish a full weight metallic gold currency at the head

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* It has been explained in Essay No. 2, paras. 21 to 24, that it would be possible to have in any country a gold standard currency without gold coins, and this was illustrated by the fact that both in Scotland and Ireland, where gold is the standard of value, very few gold coins are in circulation. As a corollary to this, it follows that if all the chief European nations were to adopt a gold standard of valuation, it would not *necessarily* happen that the relations of value between gold and silver should be thereby prejudiced; on the contrary, they might possibly be improved thereby. If, for instance, all the nations used no gold for their internal circulation, but only silver or notes, or both, strictly regulated by gold—using the latter in the form of bullion exclusively for the exports and imports, and thereby the regulation of their internal currency and prices—it will be evident that there would be a much smaller use of gold, and a larger use of silver; and, as silver would hold in all these countries a subordinate position, commerce could in no direction whatever be prejudiced by any fluctuation in the relative values of the two precious metals. If instead of dispensing altogether with use of gold for internal circulation, means were adopted, by agreement of all countries, for its use to a limited extent, the relative demand for the two metals might be, in a great measure, controlled, and variations in their relative values checked and moderated.

of the present silver one, the following are the chief objects and supposed difficulties :—

1st. Supposed difficulty.—To provide a stock of gold.

2nd. Do.—To provide a currency for use, when the present rupees are demonetised.

3rd. Object.—To avoid the difficulties inseparable from a double standard, which has been proposed by almost all writers upon the subject.

4th. Do.—To establish the new currency in easy and simple relations with that of Great Britain.

5th. Do.—To avoid any loss in the value of the Indian revenue.

6th. Do.—To avoid any material alteration of present prices and contracts.

42. All these objects are believed to be realised by a combination of the measures proposed, which embody the following principles.—

1st. The practical exclusion of silver from the mints in favour of gold.

2nd. The consequent spontaneous admission of gold into the currency, by the mere balance of trade only.

3rd. The establishment of the present rupee currency at the value it has formerly held, and still holds, in relation to commodities in India, by stopping further silver coinage, and making the exchange at 2s. per rupee, the limit for the admission of gold.

4th. By utilising the present silver currency at its full local value for all payments till they can be made by gold.

5th. By the gradual legalisation of gold without, at any time, permitting a double standard.

6th. By the final settlement of the silver rupees as purely auxiliary tokens when the gold coins are sufficiently abundant for all payments, and can be made legally demandable.

43. Returning now to the supposed difficulties to be overcome and objects to be attained stated in para. 41. It may now be explained that the *first* named difficulties of the want of gold to form a gold currency, and of a stock of gold coins to enable the Government to declare them legal tender; and to make gold the standard of value; are met and overcome by the facts, 1st, that a gold standard may exist with any kind of currency, provided the latter can *only* be obtained by the delivery of gold; and 2ndly, that gold coins may be introduced as legal tender, and enter the currency by degrees, provided that they be not made demandable without due notice, and then only in such proportions, and at such times as the stock of coins in the country admit of it.

44. *Secondly.*—The supposed difficulty—that of providing a currency for use when the present rupees are demonetised, is disposed of by the fact that although silver is demonetised, the coins retain their present full local value, and are as useful for all future time within the country as they have ever been. As, in fact, it is not proposed to demonetise the rupees, this supposed difficulty has no existence.

45. *Thirdly.*—The difficulties supposed to arise from the

temporary existence of a double standard, evidently do not exist, according to my proposal; because, from the moment the reception of silver by the mints is stopped, and the currency is made procurable only by the delivery of gold, the standard would be changed to gold, and the silver coins become subsidiary. They would retain their former value, but it would be local only. The gold, circulating at its world-wide value, would effect the self-acting regulation of the currency.

46. *Fourthly.*—The object of establishing the new currency in an easy and simple relation with that of Great Britain is effected by fixing the exchanges at 2s. per rupee, which is proved by the elaborate analysis and investigation laid before the Society of Arts in 1870, to have been as nearly as possible the true average of its value for the 15 years previous to that time.

47. *Fifthly.*—The object here indicated is also gained by the arrangement just mentioned, as it would fix the exchanges for all future time within the smallest trifle of 2s. per rupee, and the present value of the Indian revenues at 50 millions sterling per annum.

48. *Sixthly.*—The avoidance of any material alteration of present prices and contracts will evidently be secured by continuing to use the present currency as it stands, provided the measures proposed be not delayed too long, and the violent strain which is now brought upon commerce by the derangement of the exchanges allowed to disorganise existing prices.

49. The following is the probable course of events if the proposed measures be adopted. The Government would, with or without successive steps, practically close the Mints to silver. The exchanges would then rise, till they reached 2s.

per rupee, the price of gold bullion falling "pari passu" to less than 16 rupees per tola pure, after which it would be brought to the Mint for coinage.

50. The existing rupees would continue to occupy the place they have always held in the currency; and prices, if and so far as at present deranged, would insensibly resume and for ever retain their former scale. The price of gold being reduced to the normal rate of 38Rs. 14as. per standard ounce, or 15R s. 14as. per tola pure,* will be procurable in exchange for rupees without loss, when required for foreign barter or export, pending the time when an abundant supply of gold coins shall have been diffused throughout the country. When, also, a stock of gold has been accumulated as cover to the issue of currency notes, a large fund will be readily available for the same purposes. The way to the prompt restoration of the exchange and currency is to be found in the absolute control gained by the Secretary of State the moment that the ruining competition of cheap silver is got rid of.

51. Finally.—I am anxious to refer to a remark which is sometimes made applicable to my proposals, namely, that the rupees would have a "forced" currency, and an "artificial" value. Such an epithet is rarely applied to our shillings and half-crowns, which circulate very readily without forcing; and in regard to artificial value, this expression is never used as to the price of highly-taxed commodities, such as ardent spirits. And in this particular case it is in one sense hardly correct; for what an article actually costs to bring it to market is a real value when there, although it may be cheaper elsewhere. I would also notice an expression used by more than one respectable writer,

* Gold could be delivered much cheaper, and has been sold even as low as 14Rs. 8as. 5½ pies per tola. Vide my "Remarks upon a gold currency for India," note to p. 28.

and referred to in para. 20, speaking of the "momentous step" of changing the standard. If the remarks upon this subject which have been already made have afforded the explanation intended, it will be understood that the momentous thing is, not the rectification of the standard, but the vast mischief that has been caused by its having got out of order; in other words, that it would be as appropriate to speak of the momentous step taken by a man who had fallen into a ditch scrambling out of it, as to apply that term to the necessary rectification of the measure of value in India. It will also be apparent, from what has gone before, that no difficulty, and not the slightest expense, would attend the measure, on the contrary, if we take into consideration the heavy losses prevented by the change, a very large profit to the Government would be realised.

J. T. SMITH.

LONDON,
1*st August*, 1876.

ESSAY No. 3.

Containing Answers to some further Objections.

1. The proposal of the Bengal Chamber of Commerce to stop the coinage of rupees, has been objected to on the ground that its effect would be to hold out the greatest stimulus to private coinage which has ever been given in the world. That the Americans will not lose the Indian markets if they can help it, and if the Government will not coin these rupees, they will do it for themselves, that no law will be able to keep what they coin out of India.

2. This objection has been remarked upon in my Essay No. 1, paras. 28 & 29, and in No. 2, paragraph 18; and I have there stated that the "stimulus" to forgery in India is not greater than it has always been since 1835, and is at present; nor as to unlawful coinage sensibly greater in India than it is in France or England; and that it is not within the bounds of reasonable probability that fifty millions, or even five millions of rupees per annum should be smuggled into the country. The coiners must indeed be much more successful than is at all likely, if they should succeed in smuggling *one* million, or even half a million of coins annually into India; and the utmost amount of mischief they could do, if they succeeded in smuggling in fifty millions annually, would be to delay the "appreciation of the currency."

3. A great deal has been written also respecting the evils of an "appreciation" of the currency, which have been stated to be an "obstacle to commerce." But according to the plan I propose, just the opposite is the case. It is the fact that the

currency is at present "appreciated," in the sense of being worth more in exchange for commodities than its metallic value; and the effect of the proposal of the Calcutta Chamber of Commerce would be to prevent its *de*preciation, and to keep it, for the moment, in the same position as the 5-franc pieces in France. But, as regards the obstacle to commerce, the proposal of the Bengal Chamber of Commerce is only so far defective, that it does not go far enough. It is only a half measure. If, in addition to closing the mints for silver, they had proposed to open them for gold, at a certain limit, that would have established the "specie point," the want of which is referred to as being so mischievous.

4. Again, as to the obstacle to commerce, it would seem to be implied that an obstacle would be created which does not exist at present. Is this true? On the contrary, is it not the case that there is an obstacle to commerce now? By way of determining whether there would be any fresh obstacle, let us consider what would be the effect of stopping the coinage of silver, the mints being open to receive gold. If the coinage of rupees were stopped to-day, and the Secretary of State were to issue bills at a minimum rate of 2s. per rupee, the mints being open for gold, as proposed by me, the rate of exchange must inevitably rise to 2s., and would remain so for all future time, as long as that state of things existed, and with barely the slightest fluctuation. Would that be an obstacle to commerce? Would it not, on the contrary, be a vast improvement on the present state of things?

5. It is not recommended that the Secretary of State should thus arbitrarily raise his demand, and that suddenly; but if he only left it to competition, the alternative being gold at the rate of 38 Rs. 14 as. per oz., it would most certainly rise of itself; and then all further trouble and all further loss would be at an end.

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6. What is the "true remedy" which has been recommended? It is as follows:—"not to impede silver going to "India, but to permit the laws of trade to diffuse silver through "India and through the world." This might be all very well if India had no connection with England, no fixed silver revenues, and no gold liabilities; but having that intimate relation with her, it is but common prudence to consider what *may* be the consequences of leaving matters alone.

7. It has been said that in some mines silver can be produced at as low a rate as 1s. 6d. per ounce. If by any possibility that should be the future permanent price of silver, in gold, what would be the effect on the Indian revenues?

8. This result, if it were within the range of even remote probability, ought, at the least, to be considered. What is it? It would indicate a reduction in value of the Indian revenues by nearly three-fourths of their whole amount! As it may, however, be considered an extravagant supposition, let us suppose the permanent future value of silver, stated in gold, is 4s. per ounce. How would that affect the Indian revenues?

9. It would inflict a permanent loss in the European value of our revenues of eleven and a half millions sterling per annum; and admitting that, in time, much of this might be recovered, it is certain that two-fifths of it would be wholly beyond early redemption.

10. What is the alternative proposed by me? It is, that the rupees being already "appreciated," should not be allowed to fall; that the further wants of the country should be provided for by admitting gold, which would take the lead in the currency, and for ever put an end to variations in the rate of exchange.

11. It has been stated that my argument in favour of the suggestion, that a Gold Standard might be adopted in India without buying the gold, is based upon a supposed balance of trade of India, as follows:—

"According to the last return there was a balance of trade during the last eight years of 17 millions sterling in favour of India. By adopting a gold standard they would make their balance payable, not as it was now, in silver, but in gold, and in this way they would obtain the necessary gold. If there was a balance of 17 millions sterling in favour of India, in the first place, the balance was in rupees converted, at 2s. the rupee, into gold. In the second place, against the balance of trade they had the India Office draughts upon India, amounting to 15 millions sterling in gold, to which must be added all private remittances from India, amounting to several millions. There are, therefore, grave doubts as to the large reputed balance in favour of India, after taking into account all these transactions. But if there were a balance of trade in favour of India, it was due to the expansion of her export trade, and as the rise of prices in India had not corresponded to the fall of silver in London and elsewhere, the export trade was now greatly stimulated. The sole object in adopting a gold standard in India was to raise the value of the rupee outside India, and the effect of thus suddenly raising the value of the rupee would be at once to check and curtail the export trade. But the scheme being based entirely upon the excess of exports over imports, the first result of its adoption would be to check natural causes now operating in our favour, and so destroy the foundation on which it rested."

12. The above does not at all represent my views; my argument that a gold standard might be established without buying the gold, had in reality nothing to do with the balance of trade. It was founded upon the fact that a gold standard and a gold currency are not necessarily connected, and that a currency made of paper or of rupees might be based upon gold—that is, upon a gold standard—without having a single gold coin in circulation.

13. The fact, taken from the report of the Committee, of the actual remittances to India at the rate of seventeen millions per annum in specie and bills, was used in support of a very different argument, in which it was quite immaterial whether

the figures represented pounds sterling or the calculated value of rupees at 2s. per rupee. The argument, which will be found in Essay No. 2, para. 31, merely requires the admission of the fact that there is a very large balance remitted to India in specie and bills.

14. Let me repeat, that a gold standard and a gold currency are totally different things. If the Secretary of State for India were to forbid the future coinage of silver for individuals, and at the same time declare that for ever hereafter he would issue bills on the Indian Treasury to all applicants at 2s. per rupee, he would virtually have changed the standard by that single act, and the rupee currency would from that date be based upon gold.* If this statement be fully considered, it will be seen clearly, that the change of standard is not so very formidable an undertaking as has been supposed.

15. In regard to gold *currency*, that certainly does require the use of gold, and I have stated my belief that it would be gradually brought into India and accumulate there, although I admitted that it would always be the first to leave the country. But this belief was not founded upon balances of trade produced by the stimulus referred to; it was based upon the expectation that the increase of the commerce of India would require an increase of her circulating medium, at least as large as that which it has been proved to have required in past years; and no one who considers the probable, indeed certain effect of the vast efforts made by the Government of late years in opening the means of communication, and affording facilities for trade, can doubt that it will be even much greater. If it be so, if in the course of the next 30 years only

* It might perhaps be desirable to adopt this as a tentative measure, the coinage of rupees on private account being only suspended till further notice. This might be continued for a considerable time, with or without the use of gold coins, if a sufficient supply of the ordinary coinage were kept up by the Government. By regulating the amount of bills put into the market from time to time, the rate of exchange might be raised by competition to a high figure; but it would be advisable to fix a maximum rate at which bills might always be had, in order to provide for the necessities of commerce.

as much be added to the currency in gold as Colonel Hyde states was added to it in silver during the period from 1835-6 to 1874-5, namely, 167 millions sterling, my expectations will be fully realised; and more than sufficient gold coins for the use of the public will have been established in circulation.

16. But it may be said that no additions can be made to the circulation except by means of the coinage of precious metal brought in by the balance of trade; and, consequently that a scheme which is based entirely upon the excess of exports over imports, and which checks the causes now operating in its favour, stimulating the export, and discouraging the import trade, must, as a result, destroy the foundation upon which it rests.

17. This argument, which appears to be only reasonable and conclusive, is nevertheless in reality fallacious and inapplicable to the real circumstances of the case. In order to examine it thoroughly it is necessary to separate the extraordinary and abnormal stimulus now given to the export trade of India, occasioned by the fall of silver, from the natural and healthy stimulus necessarily occasioned by the increase of commerce. It is enough to say regarding these, that the former, which is temporary and accidental, will, if not stopped, work its own comparatively speedy cure, by causing importations of silver bullion, flooding the currency, and raising all prices till the present "appreciation" or difference in the value of the rupees in and out of India ceases to exist; and it is this which it is desirable to prevent, because it would carry with it a heavy loss of the Indian revenues. The latter is the natural and self-acting corrective of the insufficiency of the circulating medium, arising from the expansion of commerce, and which, acting slowly by the insensible "appreciation" of the insufficient currency, draws to itself the requisite supplemental coinage, through the agency of the favorable balances of trade, which it steadily and persistently

creates; in the same manner as the accidental "appreciation" is now working the same result.

18. The same "appreciation" of the currency, and balances of trade will continue and occur, when the expansion of commerce requires it, whether the rupee be now fixed at 2s. by selling it for gold only, or be allowed to sink to 1s. 6d. by a comparatively sudden influx of silver. And it is not correct to say that the measure which would stop the influx, and fix the rupee at 2s., would prevent the future balances of trade, which would be caused from time to time as the currency became too small for the work it had to do; or that it would destroy the foundation on which it rests. That foundation is the future increase of the currency; and if it can be affirmed with any show of reason or probability that 20 years hence the currency of India will be of no greater value than it is at present, then it must be admitted that there will be nothing to represent the value of gold coins to be introduced during the interval, except that of the silver coins destroyed or lost out of circulation.

19. Another argument brought against my proposals is the difficulty of procuring the gold, in consequence of the large amount of that metal as well as silver used for the manufacture of ornaments, or hoarded; but this objection is, I trust, sufficiently met by the fact that I have only reckoned upon the same additions being made to the *currency* in future, as it has been proved have been made in past years, in spite of the hoarding and ornaments; and also that, as the standard can be changed without the possession of a single ounce of gold, there is not the least difficulty to be apprehended in doing so at once; thereby for ever putting an end to all but trifling fluctuations of the exchange, and awaiting the gradual establishment of the gold currency, as the expansion of commerce shall call for and introduce it.

20. The following objections have been urged against the explanations given in my second essay.

In regard to para. 5 it is said—

"The 'cæteris paribus' spoils the argument. The coins will exchange for double only if they do not encounter the metal cheaper in bullion, consequently the 'if it be quite unavoidable' (in para. 7) must be proved, and it is not unavoidable if cheap bullion competes. A *small* seignorage is sustainable because the stamping and coining are processes worth something above bullion."

21. This objection is, perhaps, due to my omission to explain the nature of the "legal tender" and its effect in the market. Having legal tender, bits of paper, containing no definite promise to pay, nevertheless exchange for value, and sometimes equal to full weight coins; and bits of metal when stamped and of legal tender do the same. There is absolutely no *competition* between coins which have legal tender and bullion which has not. The latter not being available for the legal discharge of debts, or for the payment of any tax or impost, naturally commands only an inferior place in the market, the difference representing the "appreciation" of the coins, whether by seignorage or any other cause. The effect of seignorage or other "appreciation" is to raise the local value of coins above that of bullion.

22. It is unnecessary to prove that which is matter of hypothesis, namely, that the seignorage payable to procure coins is quite unavoidable; because when a seignorage is established by law, it is *impossible* to obtain new coins without paying it. Bits of bullion are not coins, and are useless for very many purposes for which coins must be had, at any price.

23. In para. 16 my statement as to the three exceptions to be made is admitted with the following limitations:—

"A, for a trifling seignorage. B, if restricted and having no competitor at a cheaper rate. C, if the subsidiary or token currency of metal has no great divergence of true metallic value."

"Silver is legal tender here only up to 40s. Below that the metallic value is near enough, but if the silver depreciation abides, shillings will be coined by forgers I am persuaded, and they will have to be increased in weight."

24. The remark under B is also applied to para. 17, but the answers already given will be sufficient. It must be allowed that when the divergence of metallic value is very great, the temptation to unlawful coinage is much increased; but as I have explained in No. 2, para. 18, the danger is far less in India than in European countries.

25. In regard to this same para. 18, my correspondent writes :—

"There is something in this reasoning. To forge genuine silver rupees may be very difficult for India. I do not at all think that, the great difference of value abiding, it would be impossible, but it is here shown to be hard. Still I would back the forger as likely to win in the long run. The temptation would be so enormous, and the gain so large. And do not forget that coin is easily smuggled, it lies in small compass, and would come in in driblets. India has many pores through which a little coined metal might penetrate."

26. On this objection it does not appear to be necessary to make any further remark than (referring to Essay 2, para. 18), to draw attention to the facts that the gain by coinage of genuine rupees, with all the expenses of dishonest distribution, would not probably be "enormous;" and that even if a small number were successfully smuggled into the country, they would form but an insignificant proportion of the 40 or 50 millions of rupees annually required.

27. Of course the importation of foreign made coins must be prohibited, and they must be rendered liable to confiscation; the necessity for guarding against smuggling being an inconvenience which must be tolerated by India, as well as other countries, if we are to prevent rupees from sinking in value together with silver. But the temptation to unlawful coinage might be gradually reduced and extinguished if, after the price of silver was settled and become steady, the Government were from time to time to replenish the currency with heavier new token coins at 10 per cent. seignorage; making use of the profits thus obtained to call in

and re-coin a corresponding number of the old pieces, giving them the same deficiency of value.

28. It may perhaps be objected that these new pieces would be bought up for hoarding, or for the melting-pot or exportation; but they would not be liable to this common disadvantage because, as regards hoarding, they would be preserved by the much greater suitableness of gold for that purpose; and, with regard to melting and exportation, they would be superseded almost entirely by the superior cheapness of silver bullion.

29. Those who share my belief as to the future rapid development of our Indian commerce, and the very large demand sure to be made in the course of years for additional currency, will agree that I am within the mark when I reckon that five or six millions sterling will be required annually, of which three millions, supplied by the Government, might be of silver, and two to three millions by the public, of gold. If we assume, by way of argument, that the future normal price of silver will be 48d. per ounce, the cost of the rupee on the present system being 1s. 6½d., or, say, a reduction of 23 per cent., there would be a gain of 9½ per cent. on all the new rupees added to the currency, if 10 per cent. seignorage be taken, and ½ per cent. be allowed for the expense of coinage, and there would be a loss of 15 per cent. upon all old coins called in and re-coined. This would allow nearly 19 millions of the old coins to be renewed without loss to the Government, besides the 30 millions of new coins added to the currency; but even then the process would be a tedious one; and to do more would involve a sacrifice. If a million sterling per annum were devoted to this object, it would take probably 12 to 14 years to accomplish it.

30. The renewal might be also greatly accelerated, if some practicable measure could be devised whereby the loss in the transaction could be slowly and equably distributed over the whole population, during a lengthened period. For instance, if at the time the new and heavier coins were introduced, it

were enacted that at the end of every successive year, for 15 years, the old rupee and half rupee pieces would be reduced in value as legal tender, and in all payments made by the Government, and all receipts of revenue and taxes, by a cumulative discount of 1 per cent. per annum, or, preferably, of two and one pies respectively, up to, and not exceeding 30 and 15 pies, of which 192 make the rupee; the effect would be that in each succeeding year an increasing number of the old pieces could be called in and re-issued of the heavier weight without any loss. If the increasing reduction of 1 per cent., or two pies in the rupee, were made annually, it would follow that at the end of the sixth year it would be possible to call in and renew nearly 31 millions of old coins, besides the 30 millions of new coins; and at the end of 14 or 15 years to work up all the remaining old currency without any loss whatever. By that time, supposing the Indian Mints capable of easily executing 100 millions of pieces per annum, two-thirds of the work would have been accomplished.

31. The argument of Para. 19 is denied, it is said to be—

"Not shown as to reaching 'former normal powers of local exchange;' the argument, if good, would place a power in the Indian Government of decreeing one rupee equal to one sovereign; and that this would work. 'Former power' is a mere phrase; directly the metallic value exhibits a wide discrepancy, 2s. is not more likely than 20s.; but, of course, 2s. is all you want."

32. This is an important objection, and one worthy of careful discussion, the more so as the remarks which have been made upon the subject of legal tender may appear to give support to it. It is very necessary, therefore, to explain that, when I say that the rupees if restricted would become appreciated till they reached their former "powers of local exchange," I did not refer to any power or authority of the Government, not even to the "legal tender" they possess, but merely to the fact that if they were restricted they would become gradually reduced in numbers compared with the transactions to be settled and the

commodities to be transferred by them; and would then be "appreciated" up to their former value, because their number would be absolutely limited, and the demands of trade rapidly increasing. No authority or act of the Government, not even of the legal tender, gives any *absolute* value to a piece of money. It only defines what a coin, such as a rupee, is, and how it is to be obtained; which conditions being complied with, the coin is a legal tender in discharge of contracts expressed in rupees: but the quantity and value of commodities given in exchange for the coin, depends upon the comparative sacrifice of capital required to procure one and the other; that is the *cost* of procuring rupees and other articles.

33. A few years ago the cost of procuring a rupee was equal to that of procuring $12\frac{1}{3}$ grains of standard gold, and prices throughout the length and breadth of India then, and a short time ago, remained adjusted to that ratio. Now, they may be had for little more than the cost of $9\frac{1}{2}$ grains of gold, but in the interior of India they would be considered of equal value with the older rupees; and, but for the exchange with Europe, would continue to do so till the gradual flooding of the Indian currency raised all prices, and reduced the value of every rupee in the empire to its mere metallic worth. If the Indian Government were to close the mints to silver, without providing any other means of obtaining the currency, they might rise in value, putting aside the administrative difficulties connected with smuggling and forgery, to almost any degree.

34. In regard to para. 24, it is observed that—

"A vital difference is unnoticed between paper and metallic tokens. These last have nothing but their metal to stand upon. The paper token professes to give a dollar. That is, so many grains of gold. Of course if the metal pledged sinks in value, the paper token follows."

My argument is, that if inconvertible paper tokens may by restriction be kept of the value of full weight gold coins, it

follows that metallic tokens can be so too. It would certainly be better that the Government of India should be prepared, and should advertise its readiness at all times to exchange gold for their token currency, under certain conditions, and it will be proper that this should be done hereafter. This step would meet the objections as to "divergence of metallic value," but I have not proposed it at present, because it would be a serious difficulty for the Government at first to provide the means of exchange in all parts of the empire, and most probably be attended with heavy losses; while, on the other hand, it is not really necessary, for as soon as the exchanges have been restored to the normal rate of 2s. per rupee, gold will be procurable at par; and in the course of time gold coins will be abundantly dispersed, and it will then be easy to establish the privilege.

35. Much objection has been raised to paragraph 25 as follows:—

"The cardinal point has to be proved. No proof yet given. That 2s. will be given for what may be had for 1s. 6d." This assumes that, by Government decision and action, a seller of goods who can get more silver from a buyer at 1s. 6d. will be content to give the same goods for less silver at 2s. A difficult job to prove."

What is here referred to is a matter of fact, which is well known and established by abundant testimony, namely: that up to a recent date, prices throughout the length and breadth of the interior of India were not as yet materially increased by the fall in the value of silver. If rupees passed current only as so many bits of metal, it might have been different, but at present they pass only as rupees; and the natives know but little what they cost, or are worth, except in the prices of the accustomed tariffs.

36. At the chief Indian ports, the abnormal state of the exchange tends powerfully to affect the prices of both exports and imports, and thereby to induce large shipments of silver to be converted into rupees, which would in time raise all

prices to the level required by 1s.6d. per rupee, or the true price of silver. My correspondent continues—

37. "The action on prices must be considered now. It must be remembered that much silver in India is taken for hoarding, ornaments, &c., &c., &c., and was bought at 2s. It can be had now at 1s. 6d. as bullion, and the same goods, the same sacrifice of the buyer, will fetch more silver. That will be seen so; and, if by nothing else, there would be two prices in every shop. So many rupees at 1s. 6d. in bullion, so many less if they have a mark upon them. Do you think that possible for long? That the whole country will not be in conspiracy against it. Contracts for payments will stipulate the particular form of the metal to be paid. The 2s. rupee will be hemmed in and pushed out."

The writer here is evidently not aware what a patient and submissive race we have to deal with in the generality of our Indian subjects; even if it were a case of hardship, instead of inconvenience, it would take a vast deal more to awaken them to any demonstration. But the truth is that the matter is settled in a much more simple and effectual manner, as explained in my answer to the objections against para. 5, namely that the effect of seignorage or appreciation is to raise the local value of the coins above that of bullion; the consequence, therefore, is that the value of bullion stated in rupees would appear to fall in all parts of the country.

38. In regard to the 29th paragraph, my correspondent asks—

"But can any Government permanently do, or for any appreciable time, this indispensable thing?"

This I am obliged to answer in the negative, for human research has not yet succeeded in finding any article or commodity which can with certainty, and for a permanence, be referred to as a precise standard or measure of value; nevertheless, the statement may be justified as true in theory although in practice it can only be carried out with a certain amount of imperfection.

39. It is here asked—

"If the rate of the Council bills must rise to that of gold at 2s., why does it not do so now?"

The answer to this question seems to be so very obvious that the enquiry can only be accounted for by the fact that the subject has not been properly explained by me. The reason why the Council bills cannot now rise to 2s. is because the rupees which they transfer can be had in unlimited abundance at a much cheaper rate by the transmission of silver bullion. When this can be had at 48d. per ounce, rupees can be had for about 1s. 6½d., and it is not to be expected when that is the case, that merchants would give 2s. for them. However great may be the demand and competition for rupees by bills, the competition is obviously limited by the price at which they can certainly be obtained, in indefinite quantities, otherwise. When they are obtainable freely by silver, the price given for them in bills is limited by the price of silver; but when, as in the case referred to by me in the paragraph objected to, they would be only procurable by gold at a certain rate, the price given for them in bills will be limited by that rate, viz., 2s. per rupee; and if the supply of bills is short and the competition active, they would very nearly, if not quite, fully realise it.

40. A further remark is made upon this paragraph to the effect that—

"There would be no true 'former value'"

of the rupees. This is perhaps best answered by referring to the 46th paragraph of the second Essay, and the elaborate analysis printed in the appendix.

41. On the 43rd paragraph it is observed—

"If gold is not demandable till after due notice, the rupees become inconvertible notes, and what basis have they for *any* value? The shopkeepers in America will alter their prices to the value of the day."

Coins which are legal tender must be taken in payment, and they exchange for commodities in exact proportion to what it costs to procure them, as has been already explained in para. 32. *That* is the basis of their value. If they be as

is assumed, properly restricted, gold bullion will sell in the markets at par; and the value of the silver coins once fixed in regard to gold, will not vary as the American greenbacks did, when they were issued or withdrawn at the option of the Government. It would be unreasonable to make gold coins, which will be only an authentic and convenient form of gold bullion, legally demandable, when there are no coins; and the arrangement proposed, by which they would be gradually admitted into and take the lead in the currency, is thought to be convenient and free from any real objection.

42. The conclusion at which my friend arrives after all his objections, is as follows :—

"But practically we agree. I would coin no more rupees, and as soon as possible adopt a gold standard. Only, till silver steadies itself, you cannot say how many rupees should go to the pound."

Gratifying as it is to find that my correspondent, personally a stranger to myself, is, on the whole, prepared to support my views, I am reluctantly compelled to take an exception to his last sentence. It appears to me that as the measure of value has been seriously disturbed, we are bound to restore it to what it was before the disturbance began; and this not only in justice to the parties to all contracts entered into before and while the measure was impaired; but also in justice to the Indian taxpayer, to keep up the value of his payments in the markets of the world.

43. If the standard be changed it will be a final settlement; but in establishing a new one it would be as unjust to allow debtors to gain an advantage from the fact of the former standard having failed, as to allow creditors to be mulcted in heavy sums, because the rectification was not sooner made, or anticipated and rendered unnecessary.

44. The following objections have been kindly sent to me by another correspondent, an Indian Banker, personally a

stranger to myself, said to be long familiar with the practical consideration of these questions.

"He (Col. Smith) supposes that from the absorption of silver, the currency would become scarce, and that therefore the rupee would rise in value, and circulate at the level, as compared with gold, thus artificially fixed for it."

"The immediate effect produced by the closing of the Mint against silver would be a heavy fall in the price of that metal; and it seems inadmissible that any scarcity of rupees in India could ever raise the value of the rupee, intrinsically worth, say one shilling, to command two shillings."

45. The argument respecting the fall in the price in silver is answered in Essay No. 1, paras. 40 and 41, to which may be added, that if India should hereafter take two or three millions sterling per annum of silver bullion out of the market, she could not be blamed for any further decline in its future price. In regard to the inadmissibility that any scarcity of rupees could raise their *local* value, I must refer my critic to paras. 19 to 27 of my first, and 9 to 13 of my second essay, and my answers to the remarks of my first correspondent who takes up the same argument with himself at pages 31 and 32.

46. My proposition is that with a *limited* currency, the so-called intrinsic value has little or nothing to do with the matter. In all markets commodities are offered for sale at such prices as the vendors can afford; and in the Indian market the rupees have held the place which the cost of procuring them indicated in reference to all commodities; and they hold that place, pretty much, still. Suddenly, the cost of procuring rupees has greatly fallen, and if admission to the currency remains free, they will in time be superseded and reduced to the value of the cheaper rupees. But if the currency be closed, as to the present method of procuring rupees, and they should in future be only had by a mode as expensive as the former one, then my argument is that they will *retain* their value; that is, they will continue to exchange for what they really cost.

47. The cause which is assumed by me to bring about the scarcity of rupees, is the increased demand for currency sure to be occasioned by the expansion of the internal trade of the Empire, which in the last 39 years required additions to the value of 167 millions of pounds sterling. If it can be affirmed that there never will be any further demand for currency, then the "appreciation" would be confined to the contraction caused by the annual loss or destruction of coins, which has been estimated at three millions sterling per annum; but if, as I believe to be certain, there will be a future demand for additional currency, much exceeding that of past years, it will be not unreasonable to calculate a requirement of five or six millions of £ sterling per annum; and when this has continued for a few years a scarcity must ensue. In ten years the deficiency would be no less than from 500 to 600 millions of rupees.

48. "The very causes which are assumed to be the means of bringing about the scarcity of rupees would cease to exist. Rupees would no longer be hoarded; but, on the contrary, would be at once pressed forward for conversion into exchange at two shillings, and would sink to their real value."

This argument has been already answered in paras. 15 and 19, pages 61 and 63, where it is shown that the demand for additional currency has existed, *besides* the absorption of silver and gold (of which latter 86 millions sterling have been absorbed in 20 years*) and during all which time hoarding has been going on, as it always has done, and always will do, while the nation is prospering.

49. As for the rupees "being brought forward" for conversion into exchange at 2s. per rupee, and sinking to their real value, it seems to be forgotten that when the exchange really is 2s. per rupee, there is no more object in exchanging rupees for English money, than when it is at a lower figure. No profit

* Miscellaneous Statistics, Finance Account, No. 93.

can be made by buying English money at 2s. and then re-purchasing rupees at 2s., but only a loss, by brokerage and commission. If it be meant that the rupee should be sent out of India to be exchanged for gold at 2s. per rupee, then it must be pointed out that gold can only be brought into India in payment of a balance of trade, and that the rupees themselves cannot be used as exports to bring returns of gold, as their value is strictly local.

50. Hence the rupees will be worth 2s. as expressive of the value of goods, either locally or for export, and the rupees themselves will be worth 2s. in exchange for commodities, as indeed they now are, but only in India. They cannot sink in the value given to goods so long as the exchange continues at 2s., and that will be almost immovably so, when it is fixed, as proposed by me, in gold.

51. "Prohibition of silver coinage would introduce gold, no doubt, but would not in any way alter the relative values of the two coinages, as the laws of supply and demand would come into play, and force all commercial transactions to be finally adjusted with reference to English exchange."

The laws of supply and demand are precisely those which will effect the objects proposed by me, and they will establish the relative values of the two coinages, those values being equal. What is understood by the law of supply and demand is, that if there be an effective and unlimited demand for any article in the market, it will command in that market *at least* as much as its cost price.

52. If the present rupees have formerly cost as much as one-tenth of a sovereign each—are at present exchanging with commodities for about that value—and in future cannot be procured for less than that value, the inference is allowable that, under those circumstances, the relative values of the two currencies will be equal.

And what will be the English exchange? If 17 to 20 millions sterling in value of Indian rupee currency *must* be procured within the course of every year, and there is no other possible means of procuring them (imports into India of commodities having been exhausted) except by gold at 2s. per rupee, and Council bills at the same rate, it appears to be pretty certain that it would be 2s. per rupee.

53. "The importer of gold, who has bought that metal at its true value with reference to silver, would never consent to hand his gold over to the Mint at Rs. 38.14as. per ounce (equal to Rs. 10 per sovereign). If he should require to have his gold coined for convenience sake, he certainly would only then part with it at its natural and real premium. Under no circumstances would gold coinage accumulate in the hands of the Government; and it seems a fallacy to imagine that by any arbitrary act could even a Government succeed in putting such pressure upon private individuals as would force them to part with their gold at a price far below its real value."

When the rate of exchange is 2s. per rupee, it will be found by merchants and bankers on many occasions easy to deliver gold at less than 38.14as. per ounce,* and they will gladly do so without any pressure. When it is said that "under no circumstances" would gold coinage accumulate in the hands of the Government, my meaning as stated in Essay No. 1, para. 11 and para. 15 of this Essay, page 62, seems to be misunderstood; for it is not declared that gold would accumulate in the Government treasuries, but in the country, and in circulation; and it can hardly be denied that the Government would have as much power and opportunity of acquiring, and if they wished it, of hoarding gold as private individuals, without using force or oppression.

54. "Colonel Smith admits that gold coins would for a time command a premium, but that this would disappear as they became abundant and silver coins became scarce. But the rarity of the silver rupee would in no way enhance its value, even if the silver coin did become scarce."

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* Vide note to paragraph 50 of Essay No. 2.

I think this objection is answered in Essay No. 1, paras. 21 to 26, Essay No. 2, paras. 12 and 15, and in this Essay, paras. 21 and 32. It arises from the difficulty felt by many minds in understanding that legal tender currency, whether made of paper or metal, circulates with authority, and exchanges for as much "capital" or "value" as it takes to bring it into the market.

55. "But what is to bring about the scarcity of rupees? They can never be exported. They are hoarded to an enormous extent. And the moment it is found that ten rupees could purchase a gold coin equal to a sovereign, the hoardings of years would be produced, and the law that an inferior coinage always drives out one superior to it, would have another illustration."

It is true that the rupees cannot be exported, and it is probable that they are to some extent hoarded, but not to an enormous extent, because it is known that gold has been hoarded to a very large amount; and, whenever possible, it is likely gold has been substituted for silver for that purpose. There is, therefore, not much to fear on the score of this objection, though hoarding may tend somewhat to delay the early diffusion of gold coins. As for the inferior currency always driving out one superior to it, that only happens when the inferior, or, rather, cheaper currency can be freely obtained by the public; and the reason is obvious; but the law does not apply when the cheaper currency is not procurable freely, as we see exemplified for years past in England, and now in France.

56. "The Indian by no means prefers the bulky rupee to the more convenient sovereign, as a coin for hoarding. On the contrary. And it is to be feared that any attempt to carry out this plan would only cause great disturbance, and would entirely fail in bringing about the objects sought."

The first of these statements is, probably, quite correct; and it affords a reason for my belief that, although there is a very large amount of precious metal hoarded, it is principally gold and fine silver bars, and not very much of coined silver. The second does not require any special answer.

57. "Much might also be said of the impossibility of preventing illicit coinage of rupees when a gain so enormous would be the temptation.

This objection has been answered in No. 1, paras. 28 to 30, No. 2, para. 18, and No. 3, para. 26.

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58. The foregoing objections contained in the three Essays are the most important that have been received up to the present time; and it is hoped that they will afford a sufficient illustration of the principles upon which the proposals for the restoration of the Indian currency and the introduction of gold are founded, and of the chief arguments by which they may be attacked and defended.

59. The most interesting point for enquiry and decision is, whether the Indian Legislature, by suspending the coinage of silver, and publicly undertaking to transfer Indian rupee currency to all applicants, in London or elsewhere, at a fixed rate in pounds sterling, would not thereby change the Indian standard of value to gold, without the slightest disturbance or even knowledge of the native community; and be enabled to put an end to all material variations of the currency, and future depreciation of the Indian revenues.

J. T. SMITH.

LONDON,
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ESSAY No. 4.

REMARKS UPON THE RESOLUTION OF THE GOVERNMENT OF INDIA, AND THE COMMENTS THEREON BY THE "TIMES."—ON THE DIFFICULTY CAUSED BY UNLAWFUL COINAGE.—OTHER OBJECTIONS.—AND ON THE AVERAGE VALUE OF THE RUPEE.

1. The following remarks are intended to show that the proposals I have ventured to make in my former Essays meet all the objections offered by the Government of India to the suggestions of the Calcutta Chamber of Commerce.

2. The first objection is referred to in paragraph 8 of the resolution, and states that Government are invited to take a measure calculated to enhance indefinitely the value of the rupee, and which must eventually lead to a fall in prices. This is true, and the defect of the proposal is implied in the remark made in the 16th paragraph, that, had it been asked that simultaneously with the closing of the Mints to silver, they should be opened to receive gold, the recommendation would not have been open to the objections that appear to the Governor-General fatal "in limine" to that actually made.

3. My proposal is precisely that which is approved by the Government of India, as it will be found by referring to Essay No. 1, paragraph 13. It may be added that, although it is proposed to raise the rate of exchange by degrees, yet the effect of the whole measure upon the prices of commodities in India will be "nil," except in so far as they may have been altered by the depreciation, in which case only, and to that

extent and no more, they will be restored to their true quotations, estimating the rupees at their average value during the last 20 to 80 years.

4. It appears, further, from a perusal of the 17th and 27th paragraphs of the Governor-General's minute, that while deeply sympathising with the losses of individuals, and the disturbance of trade caused by the fall in the exchange value of the Indian currency, he is of opinion that there is nothing as yet in the nature of existing circumstances, notwithstanding the inconveniences and anxieties which they undoubtedly involve, demanding recourse to a measure so "costly," and of which all the requisite conditions are at present so uncertain as that above referred to, namely, the closing the Mints to silver, and opening them to receive gold.

5. If reference be made to my Essay 2, paragraph 50, Essay 3, paragraphs 51 and 52, and also paragraph 8 and the latter part of paragraph 42 of the present Essay, it will be seen that there is really not the slightest uncertainty as to the results of the measures I propose. It is possible there may be some depression in the value of silver, after the exchanges have been restored to 2s. per rupee, and gold is freely brought in for coinage; but when it has ceased to affect the currency, any further loss of price of silver will be an unmixed benefit to the natives, and lead to its increased absorption for manufacture and ornaments.

6. In regard to the costliness of the measure, it is most probable that this opinion was founded upon the belief that a gold currency would be an indispensable and immediate accompaniment of a gold standard; but although it is true that it might be a convenience, yet it will be evident by a perusal of the remarks made in Essay 2, paragraph 43, and Essay 3, paragraphs 14 and 15, that it is by no means a necessity, and that not a single farthing need be expended upon it.

7. The sole inconvenience of the artificial value given to the rupees would be felt in small transactions with foreign traders,

by whom the token coins would be taken only at the price of the metal contained in them. It would not be felt in any other transaction; and this difficulty, which would be gradually removed as gold coins became plentiful in circulation, would be no worse than it is now, and irremediably so, for rupees are now only receivable in such transactions at their bullion value; while, if my proposals be carried out, it would be capable of easy remedy by the purchase and employment of gold bars, which, after the exchange with London has been raised to 2s. per rupee, will be procurable by the token rupees without sensible loss, first in Calcutta and Bombay, and afterwards in all principal cities, because the mere fact of a demand bill on London being worth 2s. per rupee makes the value of gold, which is the same as that of a demand bill, 38·14 as per standard ounce (that is at 2s. per rupee) at which price, or a trifle more, it is more profitable to bring it from Australia into India, than to take it to the Bank of England in London.

8. As this point is of some consequence, it may be useful to add the following:—When a telegraphic transfer of English money can be procured in Calcutta or Bombay, on payment of one rupee for 2s. sterling, it is more profitable to take gold thither from Australia for sale at 38·14 as per standard ounce, for the purchase of such transfer, than to carry it forward for sale to the Bank of England for £3. 17s. 9d.; because by the former plan the same amount in sterling will be realized in London more than a fortnight earlier; and hence the price of gold cannot exceed the 38 rupees 14 annas, when the exchange by transfer is at 2s., as that is a more favourable disposal of it than the price, to realize which, the great bulk of the produce of the Australian mines is sent to Europe. Hence it appears that Gold bars will be at all times procurable in India at "par" when the exchanges have been fully restored; and there is, therefore, no necessity, on account of the small trade carried on with outside dealers, for the forced adoption of a gold currency, which will

establish itself by degrees without any expense whatever. And with regard to the "costliness" of my proposals in other respects, it is unnecessary to repeat the statements made in paragraphs 26, (8thly) and 35 of this Essay, to draw attention to the very large pecuniary advantages which are inseparably connected with them.

9. It is only necessary to notice one more remark of the resolution of the Government of India, namely, that contained in the 11th paragraph, to the effect that it is essential to a sound system of currency that it should be automatic. This truth has not been overlooked in the proposals I have made, as will be evident from the fact that, at the very moment that silver is excluded from the Mints, they are opened to gold; and the increase and diminution of the currency might be from that date regulated by the import and export of gold, and the self-acting operation of prices on the balances of trade.

10. It is true that, instead of the immediate restoration of the rupee in exchange to its full value, and the consequent simultaneous equivalence of gold at the rate specified, I have suggested for consideration the propriety of effecting the change by comparatively slow steps, in order to avoid the great distress and inconvenience to commerce that a sudden return to the true position of the currency would occasion; but this does not in any way interfere with the principles of the measures advocated, but only moderates the effect of the change, in consideration of the necessity of guarding the many and important interests at stake, from the consequences of sudden action. The Secretary of State *might* in an instant put an end to the heavy losses now incurred, owing to the abnormal depreciation of the Indian currency; and if that be not done, it will be only because, in considerate regard for other interests, he may refrain from taking advantage of the power which circumstances would undoubtedly give him, of exchanging the currency for nearly its full value; and consent for a time to continue to suffer loss, till by

a gradual process he may bring about the desired change, with the most ample notice to all parties who may be interested in it.

COMMENTS IN THE "TIMES" OF THE 25TH OCTOBER, 1876.

11. In a leading article of the "Times," under date the 25th of October, 1876, the misconception of the Government of India, leading them to suppose that the substitution of a gold for a silver standard would be "costly," is pointed out, but it is added that—

"If it was announced that after a certain day the coinage of silver would "be suspended, and that gold would be coined instead, for whoever might "bring it, in coins that would be exchangeable for rupees at a fixed rate, there "would be introduced into India the bimetallic system actually prevailing in "France and a change in the currency would be gradually introduced. At "first no gold would be brought to be coined, but as the suspension of the "coinage of silver operated to raise the value of the rupees to the value defined "by the fixed rate of exchange of rupees and gold, gold would be more and "more brought to the Mint and find its way into circulation."

All this is quite correct if it be explained that the bimetallic system referred to is not the double standard formerly prevailing in France, and advocated by Mr. Cernuschi, but a single standard of gold with token silver coins, of which the 5 franc pieces are legal tender to any amount.

12. The article goes on—

"The process would be automatic and not costly, but it would be extremely "slow; and there is every reason to believe that its practical effects would be a "great disappointment to those who now recommend it. Silver bullion, deprived "of its last great open market, would fall far below anything we have already "experienced, unless the owners of the Neveda mines obtained a re-establish-"ment of a silver currency in America. At the same time, the primary effect on the "trade of India would be disastrous. The foreign trade of the great Peninsula "depends largely on the export of silver to it, which is exchanged for com-

"modities, and then coined and passed into the currency; but if silver was "summarily deprived of the quality of convertibility into money, this course of "trade would be closed, and some time, a time of great embarrassment and "distress, would pass before commerce became reorganised."

13. These remarks appear to be founded on a misapprehension as fatal as that of the Government of India with respect to costliness.

In the first place, no embarrassment or distress ought to occur if ample notice be given to the public of the intentions of Government in regard to any change.

Secondly, in consequence of the notice, all pre-existing engagements will be carried out without prejudice or injury; and, after the expiry of the notice, parties wishing to place funds in India will have the means of doing so to any extent, by means of the Secretary of State's bills, with absolute certainty, both as to the present and the future. This, it would appear, will not only not occasion embarrassment and distress, but the very opposite, and be an immeasurable improvement upon the present state of things.

14. It may be asked, how about foreigners, such as the Chinese, or others, who may possess silver, and wish to make use of it for remittance? To this it may be replied that the silver has its full market value in China, and everywhere else, and it may be exchanged for gold, and the latter sent to India: or for bills on London, where Council bills may be purchased; or it may be offered for sale to the Government of India at the market price, to be bought by them, just as the British Government buy silver for the token currency here. A consideration of these various methods will, I trust, enable any one to believe that there need not be much embarrassment or distress, after due notice of the intended change, for the short period occupied in carrying it into effect.

15. The last paragraph of the Article begins as follows:—

"The transformation of the currency of a country like India is a task of "such dimensions that a case of proved necessity must be established before

"any Government can be persuaded to enter upon it. If the operation is to be "rapidly performed, it is extremely costly; if it is left to spontaneous action "it will be extremely slow. We adhere to the opinion, more than once "expressed, that it is entirely unnecessary."

16. It is not a little remarkable to find a writer, commenting upon an important despatch in which the Governor-General of India expresses his deep sympathy with the losses of individuals and the disturbance caused by the fall in the exchange value of the Indian currency, repeating his opinion that a measure which he has stated would not be costly, but only extremely slow, and which he must be aware would very speedily (it might be made immediately) put an end to all these evils, is "entirely unnecessary."

17. As the paragraph stands, the opinion strictly applies only to the introduction of the gold *currency*, which, it is true, is comparatively unnecessary; but it is evident from the next sentences that the author has omitted from his view the effect of the change of standard upon the rate of exchange, upon which all the losses and embarrassment hitherto experienced especially depend.

18. The writer's only grounds for this conclusion, in addition to the explanation, which will be presently noticed, appear to be his misapprehension as to the embarrassment and distress during the short period of transition; which, even if it were correct, would be no just argument against a measure of State policy calculated to affect all future time; and his remark that "if it (the change) be left to spontaneous action, it would be extremely slow." The first is a mistake, as before explained, and the second is the strongest argument in favour of the measure which its warmest advocates could advance. What could be more desirable than that the introduction of the gold currency should insensibly take place by the spontaneous action of the operations of commerce? It must, however, be remembered that it is not the alteration of the *currency*, but of the standard,

which is now so much needed, to put an end to all the embarrassment and difficulties to which commerce, individuals, and the Government have been and are exposed; the effect upon these would be as speedy as might be required. The introduction of the gold currency is of comparatively no importance, and would not injuriously affect any interest, however long it might be delayed. But the author adds—

"Every private difficulty arising from a diminution in the purchasing "power of silver, will be adjusted by the spontaneous action of those whom it "affects much more easily and efficiently than it could be by the intervention "of the Supreme Government, and the single difficulty will be the discovery of "the means for redressing the balance of the State income and expenditure."

19. Can the author of the above statements have seriously considered the following sentence in paragraph 4 of the carefully worded resolution which he criticises: "but it may be long before a stable adjustment of relative value is again attained, and meanwhile the mercantile world must suffer." Can he reflect upon the probability, almost certainty, that whatever the equilibrium may be, it will be below the former rate of 2s. per rupee, and that to whatever extent it rules under the former average, to that extent private interests will be permanently and hopelessly injured. These interests are very large, including the Indian Government debt, the annual remittance of 15 millions sterling, representing a capital of 300 millions sterling, and all the private capital invested in India. Does he also remember that, "redressing the balance of the State income "and expenditure" means, either extracting more tribute from the taxpayers, or restricting the development of the resources of the Empire? If my statements are correct, the whole of the depreciation and loss will be removed, speedily and for ever, by the measures—not necessarily irrevocable—I have recommended. This will be effected, not only without trouble or expense, but on the contrary, a considerable gain; and it can only be brought about by the action of the Government of

India; and although the writer states that every private difficulty would be "more easily" adjusted by the spontaneous action of individuals, it certainly appears to be a very hard problem, and one which the author might gain well deserved reputation and gratitude of the parties interested if he would solve, namely, how a large Indian Bank, having a capital of a million sterling employed in India, on winding up its business, or taking stock, can realize the number of pounds sterling spent in acquiring it.

20. If the Government of India wish the capital of parties in Great Britain, or any other gold standard country, to be freely invested in India, they will not be insensible to the great importance of guarding them against the severe losses and disappointments to which a difference of standards in the two countries unavoidably exposes them. It would be a great misfortune if the progress of India were to be restricted by the amount of capital advanced by the natives for its improvement; which, from the latter part of the 25th paragraph of the resolution, the Government of India seem to consider necessary; and it is a recommendation of my plans that this necessity would be altogether obviated.

ON THE DIFFICULTIES CAUSED BY UNLAWFUL COINAGE.

21. To get rid of every trace of doubt regarding the difficulty which has been objected to my proposals connected with the unlawful introduction into India of genuine coins manufactured in America or elsewhere, it is very important to shew that however great the temptation might be, it may be restrained within bounds, or reduced to nothing, at the pleasure of the financial Minister; but before entering upon

this explanation it may be desirable first to give a glance at the dimensions of the question.

22. Great Britain with her population of about 32 millions has a metallic currency at the rate of not less than £4 per head; France at the rate of £5 or £6 per head.

Both these countries have the assistance to a very large extent of all kinds of banking facilities, notes, bills, and cheques innumerable.

23. India, 20 times the size of England, and 5 times that of France, in area, and more than 6 times that of either of them in population, is comparatively destitute of banking facilities in the way of deposits, cheques, &c.; and at present the great bulk of her transactions are from hand to mouth by ready-money cash payments. The people are industrious, active, and speculative, and the country fertile, and abundant in resources.

24. I have shewn in my first Essay that in the last 38 years the trade of India increased nearly four-fold. Its currency has doubled in 20 years, and this, before its canals, railways, and telegraphs have had time to *tell* on its commerce.

What would be a fair and moderate estimate of India's requirements for currency 40 years hence?

If it were equal to France, which is perhaps a more just comparison than England, its population of 230 millions would possess a currency (at £5 per head) of 1,150 millions sterling in value.

Supposing, instead, that its *commerce* should increase in the next 40 years only as much as it has done in the past 40, the corresponding value of the currency would be 560 millions.

Again, if the *currency* increased only in the same ratio as during the last 20 years, it would be four-fold its present value, and would amount, also, to 560 millions.

Now, if the currency increases from the present value of 140 millions sterling to 560 millions in 40 years, that would be by an addition to it at the average rate of 10½ millions per annum.

25. My first Essay was written when silver was depreciated 12 or 14 per cent., and it appeared to me that 10 or 12 per cent. is not too large a reduction in value of a token currency, in the circumstances of India. I have since observed that the Americans proposed 9 or 10 per cent. for their token currency.

In my third Essay I proposed methods to reduce the difference of value to 10 per cent., if it should, by any chance, become necessary; but from information more recently obtained it seems very doubtful whether anything would be required.

26. Let us, however, suppose the worst. That there is a difference of 20 per cent. in favour of unlawful coinage, and smuggling, and that nothing has been done to reduce the temptation, as proposed.

1st. In the first place it appears that coining on a large scale in India could not fail to be prevented; and that importation from abroad could also be prevented; for the country is well surrounded by the ocean, and impassable barriers.

2ndly. But supposing that in spite of all efforts, a certain amount of unlawful coins did succeed in gaining admission into the currency. Are they likely to do so, continuously, to such an extent as to seriously affect an annual increment of 10½ millions sterling? or say, even of 5 millions?

3rdly. If they did so, what would be their effect? This may be answered by saying that they would prevent the Government making additions to the silver currency to the extent they otherwise would, and to the amount of their own value. If we were to assume that *one million* of Rupees were smuggled into India annually, on the average, their effect would be the same as if an extra one hundred thousand pounds' worth of private bills on England were drawn in India. The rupees being exchanged for goods sent abroad, or bills, they

would, as imports into India, diminish a balance of trade favourable to India to their own amount, and retard the introduction of gold to the same extent; but they would do no other harm; unless we assume that they were brought in to such an extent as to turn the balance of trade against India.

4thly. The unlawful coins, unless as numerous as just supposed, would do no harm or injury to anyone except the Government. They would injure the latter by diminishing the additions to the silver currency proper to be made at certain times, and the profits of them—just as the smuggling of salt or opium would deprive the Government of the much larger profits of those monopolies.

5thly. But against the losses so sustained we must set off the profits necessarily resulting from the measures proposed. If we assume that out of the 10½ millions annual addition to the currency, 8½ millions are of gold, by commerce, and 2 millions of silver by the Government, that would imply (at 20 per cent.), a gain of £400,000 per annum, less the amount reduced by smuggling; which, if one million of rupees were brought in, would be 20 per. cent. of £100,000, or £20,000.

6thly. But even supposing that there were either no additions made to the silver currency, or that the gains to the Government under this head were reduced by smuggling to "*Nil*," what would be the gain to the Government of India by an early rise of the exchange to 2s. per rupee, and its *permanent* fixture at that rate, with only fractional deviations?

7thly. What would not be the relief and benefits conferred upon the public in India and England, and the officers and members of all ranks of Her Majesty's service in India?

8thly. The advantage under the sixth head may be reckoned by millions, if 20 per cent. be assumed; and if not, then the difficulty assumed is also diminished.

9thly. It must be remembered that if the difference of value or "seignorage" of the token rupees be too great,

measures might be taken to get rid of the difficulty as proposed by me (in pages 66-7, paragraphs 29 and 30), and also that, whether this be done or not, we have only to wait till, in due time, the gold coins take the lead in the currency, and the silver coins will then be restricted.

27. The object of all these representations is to shew that although there might possibly be some difficulty attending my proposals, yet that the objection of unlawful coinage and smuggling does nothing more than threaten to diminish one—and that the smallest one—of the enormous advantages and gains which they would secure both to the Government of India, Her Majesty's services, and the public in general engaged in our vast and daily increasing Indian trade. I hope, therefore, that it will be admitted that although it is possible the unlawful coiners and forgers (paragraph 18, page 39) might give us some trouble, yet my proposals would, nevertheless, succeed in producing an incalculable amount of good, and very large financial gains, in spite of them.

28. But in addition to the arguments already advanced, let us suppose that the apprehensions connected with the difficulty of unlawful coinage are still not removed; that on the permanent settlement of the value of silver as compared with gold, the intrinsic value of the rupee should be very far below its current worth, and that it is feared the profit might be so great as to make it a tempting speculation to run the blockade of all the preventive measures the Government may establish to exclude foreign-made coins from the country.

Under these circumstances it would be desirable to draw attention to two facts:—

First. That, as before observed, foreign made genuine rupees, if they did gain access to the interior of India, in all but excessive numbers—for instance, to any extent short of the whole balance of trade of the Empire—would do no harm to any one excepting the Government, and to them only by

retarding the introduction of gold, and depriving them of the profit arising out of the coinage of gold and silver at the Mint.

Secondly. That by carrying out the principles suggested, (3rd Essay, paragraphs 27 to 30) for the case of an excessive difference between the current and intrinsic value of the coins, and by a timely adjustment of the rate of exchange, the temptation itself may be reduced to *nothing*, or kept within such limits as may be known to be quite safe.

29. The main difficulty in settling the details of the introduction of a gold standard for India, in such a case, arises from our ignorance at present of what may be taken to be the future permanent value of silver as compared with gold, and also what the amount of temptation our preventive measures will be sufficient to overcome. In my pamphlet I have taken it for granted that a difference of 10 per cent. between the current and intrinsic value of the rupees would not be too great; assuming that the Government would, through the agency of the Customs, both in India and Ceylon, have no difficulty in preventing the introduction of coins of foreign manufacture, and would also put a stop to those of native Indian mints; for it must be remembered that unlawful coinage of genuine rupees cannot be profitably carried out except upon a large scale; and their importation into India, if it take place at all, must be on a large scale also.

30. The suggestion above referred to, which was made to meet the event of an excessive permanent reduction of the value of silver, compared with gold, was the gradual dis-rating of the rupees, coupled with the issue of new coins at a seignorage of ten per cent. It was proposed to effect this depreciation of the current value of the present coins by slow degrees, in order to create the least possible disturbance of existing contracts, and to afford ample time for the progress of events to show conclusively what would be a proper final estimate of the future permanent price of silver, whereby to fix the weight

of the new token coinage. For this purpose the cumulative depreciation of one per cent. per annum was suggested, but this might be much increased, if it were desired, without any serious ill effects.

31. The process of dis-rating might be carried on till the current value of the coins had been reduced very nearly to their intrinsic value—it might be carried even somewhat lower; and they would then be brought to the mints freely for sale and for conversion into the new token currency, at a considerable profit to the State.

In the meantime the former Company's rupee would hold its place in all public and private accounts as an imaginary coin, or money of account, in the same manner as the "current rupee" was, when in use in the beginning of the century.

32. It will be understood that these measures would be only called for in the event of the permanent price of silver, as compared with gold, being so very greatly reduced as to make it a serious difficulty to prevent the introduction of unlawful coins, and very serious loss being thereby occasioned. It is obvious that by the time the current value of the coins had been reduced to their intrinsic worth, all temptation to unlawful coinage would be at an end. There also is another circumstance which would tend to diminish it.

33. What is now referred to is the rate of exchange. It will have been understood from what has been formerly said on this subject, that from the moment that it has been declared that no more silver will be received into the Indian Mints, but only gold at the rate of 2s. per rupee (Act 17 of 1835 having been repealed), the Secretary of State will have a monopoly of a very large part of the means of remittance; and that from 17 to 20 millions sterling per annum will be remittable to India only by means of Council drafts upon the Indian Treasury. It would be quite *practicable*, therefore, for the rate to be fixed at once, at nearly 2s. per rupee, and the public could not practi-

cally avoid purchasing the Bills, and making remittances at that rate. But to do this suddenly would create a shock and disturbance of commerce even greater than that already experienced, and on many grounds it would be very desirable that so great a change should be introduced by degrees.

34. There must be so many circumstances of which I am unqualified to judge, which ought to be taken into the consideration of the course to be pursued, that I would not presume to express an opinion as to the details of the measure to be finally adopted by the financial authorities. The following remarks are therefore merely intended as an illustration of the subject:—

Supposing it were decided that the rate of exchange should be gradually raised to 2s. per rupee, or as near that amount as practicable, by successive steps of ¼d. per rupee per quarter, and that notice of 6 months should be given previous to the alteration.

35. If the rate of exchange at the time of the first notice were 1s. 9d. per rupee, it would, at the above progress, take 3¼ years, including the notice, before it arrived at the full rate of 2s.; and, reckoning drafts to the amount of 15 millions per annum, the loss incurred by this considerate postponement of the rise, as compared with an immediate enhancement, would be about 3½ millions sterling. If only three months' notice were given in the first instance, nearly half-a-million sterling of this would be saved. But it ought to be added, that the losses here spoken of are not real losses at all; they only indicate the amounts by which the gains, in comparison with the present state of things, would fall short of the full gains of an immediate and sudden bound of the exchange to 2s. per rupee. In both cases the actual gain by an immediate raising of the rate, as compared with a continuance of the present state of things, for 3¼ years, would be £6,125,000, but it would be reduced, in the first case, by £2,609,375, in the second by £3,078,125.

It must be added that after the rate has risen to 1s. 10d. there will be an additional gain upon all the remittances made in payment of money on account of railways.

36. It will be obvious that when the rate of exchange is to so great an extent subject to be influenced by the proceedings of the Government, it would be very desirable that ample notice should be given to the public of their proposed course of action. On the other hand, unless there be either some considerable uncertainty, some restriction of the issue of bills to the bonâ fide wants of trade, or very considerable delay, it would be difficult to avoid the inconvenience of speculative purchases on a large scale to secure the profit of the rise, when the latter could be certainly depended upon. This may perhaps be best obviated by special arrangements.

37. It ought not to be omitted, that these speculative purchases would do no injury to any one except the Government, by encumbering them with a larger supply of funds than are required for home payments, and at a lower rate of exchange than that at which they might be afterwards obtained. But they would carry with them this compensating advantage, that when the Secretary of State was more than abundantly supplied, he would be in a stronger position to advance the minimum rate of exchange for his bills in the future; supposing that he was acting upon a progressive and tentative system.

It must here be noticed that until the rate of exchange has risen to nearly 2s. per rupee, no gold will be taken to the Indian Mints; and also that at times it may be necessary for the Council bills to be disposed of at a somewhat lower rate than 2s. per rupee, when gold can be delivered in India at that price.

38. But the chief point which has induced me to touch upon the question of the rate of exchange is to shew how by its action it might, together with the dis-rating of the coins, in case of need, *annihilate* all temptation to unlawful coinage.

For instance, supposing an excessive fall of the value of

silver—so that the ordinary rate of exchange was 1s. 6d. per rupee. So long as that rate continued there would be no gain by unlawful coinage, because it would cost more than the 1s. 6d. to procure the silver and manufacture the coins, and the rupees so obtained would only be worth the 1s. 6d. for which they might be had by bills; but if, while the price of silver remained the same, the rate of exchange were gradually raised towards 2s., the gains by illicit coinage of genuine rupees would begin and increase, *pari passu*, with the advance in the price of the rupee. On the other hand, if, at the same time the dis-rating of the coins were carried on with equal rapidity as that noticed above, paragraph 34, viz., $\frac{1}{4}$d. per quarter, or 4 per cent. per annum, the value at which the coins would pass in India would continually decline, as the profit by coining them, had they retained full values, would have increased; and as fast as the temptation grew on the one hand it would diminish on the other, and might thus be avoided altogether; but as I have before observed, this expedient is only intended for an excessive default in the value of silver; and, judging by the latest information on the subject, will probably never be required at all.

39. It is also important to observe, in answer to some objections, that during the one or two years or more delay, and until the rate of exchange has risen to such a point as to induce the delivery of gold to the Indian Mints, the quantity of silver absorbed by India will be precisely the same as if the coinage of it had not been interfered with.

40. The Secretary of State must on the suspension of coinage undertake to deliver bills at a fixed rate to all comers, and the whole of the remittances hitherto effected by bills, private drafts, and silver bullion, will be made by bills only. He will therefore have to grant remittances, not only for the same amount as formerly, but also for the sums sent by private drafts and bullion, and will thus have more money paid into the Home Treasury than he requires. The excess will be equal

to the value of the bullion hitherto sent to India, and the Secretary of State will himself send it out to be coined on behalf of the Government. There will be thus precisely the same quantity sent to India as there would be under the existing system, till the time arrives at which gold can take its place, after which the currency will be for the future supplemented and regulated by that metal, and by any further additions to the silver coinage which may be found necessary for the purposes of internal circulation.

41. But a doubt may still remain, namely, whether the whole currency of India can be permanently kept at a much higher value than the market worth of the materials composing it. Theoretically, it must be allowed that it might be done, as there are instances in which absolutely worthless tokens have acquired and, for years, maintained a high value; but in order to understand the case thoroughly, it is necessary to advert to the principle which is effective in all such cases, namely, that tokens, being legal tenders, necessarily exchange for the value of the minimum cost at which they can be brought into the market; which value they will retain so long as that minimum is strictly adhered to (vide Essay 3, paragraphs 51 and 52, p. 75).

42. I venture, therefore, to submit, as an illustration, that if the Indian Government were to pass a law increasing the seignorage upon rupees from 2 to 5 per cent. (the price of silver remaining uniform) the value of the coins would gradually rise till, instead of being, as now, worth 2 per cent. more than silver bullion, they would be worth 5 per cent. more; and, in the same way, if the Government were to pass a law, as I propose, enacting that in future rupees should be only procured by the delivery of one-tenth part of the gold contained in the British sovereign, they would in future be worth one-tenth of a sovereign. We must not, however, fail to remember that the Government of India is not called upon at present to raise the value of the rupee, but only to prevent its depression. I may also mention that by my proposal the exchange with India

would certainly rise to and remain constant at about 2s. per rupee, and when that has been experienced for some time, the large number of two hundred millions of rupees being annually purchased in exchange for gold at that price; it would be impossible for the currency, which is already of that value, when it commands the same in the purchase of gold, to sink to any lower value in the purchase of commodities.

43. The doubt has been suggested whether it would be right that the Government of India should possess the privilege of issuing token money "ad libitum" without some effective restraint, such as that always in operation in regard to full weight metallic coins; whether, in fact, it would be safe to give them a power which might possibly be abused. This objection has been in some measure provided for by the note to para. 31 of the second Essay, page 47, where it is pointed out that if the supply of silver were overdone, the gold would leave the country. But the explanation may be carried a little further, by saying that after the exchange is restored in full, gold coins will continue to bear a small agio till they are in sufficient numbers for the wants of the country, and the increase or diminution of the agio will indicate whether the silver coins are in excess or deficiency; but if the Indian Government were to increase the supplies of silver coins till the gold pieces had left the country, the exchanges would afterwards begin to fall, and the Government would be not only reminded of their mistake, but punished for its commission. It may be remarked that it would be open to the legislature to enact that no silver should be coined but such as was sent to India, the produce of the overplus of payments for Council bills. When a surplus is required to supplement the rupee coinage, the amount of bills taken would be regulated with great precision by the Secretary of State, through a temporary relaxation of the rate of exchange; because merchants and all other parties will always take bills in preference to sending out gold, if the former are sufficiently cheap. If the Secretary of State were to abuse the

power, he would flood the currency, raise prices, diminish the balance of trade, and, in the end, find a difficulty in procuring all the bills necessary for his purpose.

OTHER OBJECTIONS.

44. Referring to the increased production of gold a few years ago, and drawing a parallel between that and the present superabundance of silver, the question may be asked—Ought we to change at every variation of the value of the metals? To this I would, without hesitation, answer *No.* I would suffer a good deal rather than offend against the maxim to "leave well alone," although I believe it to be true that, *with the exception* of the inconvenience to merchants and others by the disturbance of arrangements previously made, there would be no more harm in changing the material constituting the standard of value of a country once a year, or even once a month, than there would be in changing from a wooden to a metal yard, provided there were no difference in the length represented by one and the other.

45. But the maxim "leave well alone" applies only when things are "well;" and my argument is that our present arrangement of the currencies of England and India is essentially wrong. It is not only now, when such enormous mischief has been suffered, but for years that I have advocated the importance of adopting for India the standard of England. Once having assimilated these important measures, there would be no reason for any further change.

If reference be made to the paragraph at the top of page 6, the latter part of the paragraph at the head of page 19, and paragraph 53, page 30, of my first Essay, this view will be found distinctly stated.

ON THE AVERAGE VALUE OF THE RUPEE.

46. My proposal of the rate of 2s. per rupee was, in some measure, based upon the supposition that the Government of

India, on being satisfied that the measure of value had become seriously deranged, would think it their duty to take steps to restore it to what it was on the average, before the derangement began; and under this aspect of the question, that the careful analysis and calculation made by me of the latest information up to 1870, including the prices of silver and gold, and consequent value of the sovereign in rupees for 15 years to 1867 inclusive, would be sufficient.

47. That calculation, carefully carried out by three different methods, gave the value of the rupee within a very minute fraction of two shillings; although considerable deductions from the value of the sovereign, which were therein stated, were not brought into the account.

48. As doubts, however, have occurred to some whether, as a strict matter of justice, it would be right to fix the value of the Company's rupee so high as the equivalent of 2s., more especially with reference to old standing contracts, I have thought it desirable to gather into one view all the facts within my reach as to the true value of the coin at different epochs, from the beginning of the century until the present time.

49. The earliest information I have been able to obtain is of the year 1783, which is interesting from the circumstance of its being 10 years prior to Lord Cornwallis's permanent settlement. At the date referred to the Bengal Military Orphan Society was established, and the rate of exchange was at that time fixed at 2s. 4d. per sicca rupee. This corresponds with 2s. 2¼d. per Company's rupee.

50. In the year 1808 the Madras Military Fund was established, and the rate of exchange was fixed at 2s. 3·428d. per Madras rupee, equivalent to the present "Company's" rupee.

51. In 1811 in the first edition of Kelley's Cambist (page 117) it is stated that the "Sicca" rupee, which contained

175·927 grains of *pure* silver, was worth 24·566d., and the "Current" rupee, which was an imaginary coin, or money of account, was worth at the same rate 21·177d., by which it appears that the latter represented 151·657 grains pure. Both these were calculated—valuing silver according to the (then) mint price in England—5s. 2d. per oz. standard. But it is added "the market price in India is generally much higher, making "this (the 'Current') rupee worth 2s. nearly, and the sicca "rupee about 2s. 6d."

According to this statement, the present "Company's" rupee, which contains 165 grains pure silver, would have been worth 2s. 4·136d. as compared with the "Sicca," worth 2s. 6d., or 2s. 2·1115d. as compared with the "Current" rupee worth 2s. The mean of these two values is 2s. 3·125d.

52. The next fact we are acquainted with is the establishment of the Bombay Military Fund, on the 1st May, 1816, when the rate of exchange was fixed at 2s. 3d. per rupee, the coin referred to being equal to the present Company's rupee.

53. In a letter from the Honourable Court of Directors, addressed to one of the Funds in 1832, it is stated that this rate, and those previously mentioned, were correct and fair at the time they were fixed.

54. In the year 1819 the Government of India adjusted the ratio of gold to silver at 15 to 1, and altered the quantity of pure metal in the gold mohur to effect that object. At the rate of £3. 17s. 10½d. per standard ounce for gold, plus seignorage at 2 per cent., which was then charged for coining gold and loss of interest at 6 per cent. for 20 days, the value of the silver rupees, at $\frac{1}{15}$th of the gold coin, would be 1s. 11·9d.: but it is stated (in Prinsep's Useful Tables, page 4) that the gold coins were at that time at a discount, so that the rupees must have been worth more than 2s.

55. In the year 1826, when the Bengal Military Fund was established, the rate of exchange was fixed at 2s. 4d. per sicca

rupee, equivalent to 2s. 2·250d. for the existing "Company's" rupee.

56. In the year 1832, the Court of Directors altered the rate of exchange for the Bengal Funds to 1s. 11d. per sicca rupee; at the same time allowing the advances made in England to be repaid at the end of 12 months, during which time the funds were receiving interest from the Government for the moneys in their hands, at the rate of 8 per cent. per annum.

In like manner the Bengal Orphan Society's Fund, which had been established with a rate of exchange at 2s. 4d., was reduced to 1s. 11d. per sicca rupee.

57. In these cases it appears, by the letter of the Honourable Court, that the rate of 1s. 11d. per sicca rupee was fixed because that was found to be the produce in England of sicca rupees sent home as a bullion remittance. They were sold at the price of silver prevailing at that time, of probably 59d.* per ounce standard, which would have yielded 1s. 11·377d. per rupee if the pieces had been all of full weight and fineness; the rate of 1s. 11d. representing only the value they actually realised.

But, if the actual bullion contained in the sicca rupee is worth 23·377d. in England, we must, in order to arrive at the current value of the coin itself in India, add to this amount the expenses of freight, insurance, loss of interest, and "seignorage," the aggregate of which, in 1832, when the best means of transmission was in sailing vessels round the Cape of Good Hope, could not have been under 8 per cent. Calculating these, the true value of the "sicca" rupee in India was at the least 25·247d., and of the present Company's rupee $\frac{1}{10}$th less, 23·670d.

In the year 1857 the above-mentioned rates were restored to 2s. per rupee.

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* *Vide* Mr. Hollingbery's Treatise, para. 236.

58. It is stated in a Minute by Mr. Secretary Prinsep, dated 20th November, 1841, that between 1835 and 1839 mint certificates for gold were freely paid into the Government Treasury at "par," and that sovereigns were sent in as bullion to the mint, and the certificates taken out at the Treasury in silver.

During the time referred to, from 1835 to the end of 1838, the gold thus brought in for coinage was subject to a charge of 2 per cent. seignorage, and a delay of 20 days, which, reckoning the interest of money 6 per cent., make the price of the rupees, of which 15 were taken instead of a mohur, costing 358.6d., (934·5d. × 102·$\frac{1}{3}$ × $\frac{165}{440}$) 23·9 or 1·11$\frac{9}{10}$d.

59. In the year 1841, gold had risen in value nearly 7 per cent., the 15 rupee mohur passing for 16 rupees in the Bazaar. This corresponds with a value of 1s. 10·194d. (the seignorage having been reduced to 1 per cent. at the end of 1838) per Company's rupee.

I have been unable to procure data to shew how long this rise in the price of gold lasted, but in 1853 it is shewn by the account No. 163 of the miscellaneous statistics, relating to the Government of India, published in 1875, that the exchange for that year, exhibited by the drawing of the Honourable Company's Bills, gave the value of the rupee at a trifle more than 2/0$\frac{1}{4}$, and the average of the 10 years ending 1862-3 is 2/0$\frac{1}{2}$, the average of the succeeding 10 years is 1/11$\frac{1}{4}$, ending in March, 1873, the average of the whole 20 years being 1/11·9. If we were to add to this sum a small allowance for interest during the transmission of the bills, the result would be more than the rate of 2/- per rupee, thus corroborating the results obtained by wholly different and independent investigation, referred to in paras. 46 and 47 of this Essay.

60. If we now endeavour to reduce the facts above given to an *approximate* average, by considering each rate to have prevailed till it was replaced by the succeeding one, multiplying the

years and rates together, and dividing the aggregate products by the total number of years, the result is as follows:—

From.	To.	Years.	Rate.	Product.
1783	1808	15	2/2·250	393·750
1808	1811	3	2/3·428	82·284
1811	1816	5	2/3·125	135·625
1816	1819	3	2/3·00	81·000
1819	1826	7	2/0·00	168·000
1826	1832	6	2/2·250	157·500
1832	1835	3	1/11·670	71·010
1835	1839	4	1/11·90	95·600
1839	1853	14	1/10·194	310·716
1853	1873	20	1/11·90	478·000
		80	—	1973·485

Now 1973·485 divided by 80 gives the average rate for the whole period as 24·668d. per rupee.

61. It must not be forgotten that there are two reasons of importance why the value of the rupee ought to be fixed at two shillings. One is, the incalculable convenience and advantage of arranging the Indian currency in a simple and easy relation to our own monetary system in England; and the second, the necessity on the score of justice, not to allow the taxes paid by the labouring classes to sink below the value they ought properly to command in the markets of the world, nor permit the landholders under the permanent settlement to escape their just share of the burthens of the State, by making their payments in rupees of less than the proper value.

J. T. SMITH.

1*st November*, 1876.

[Printed for Private Perusal.]

ESSAY No. 5.

REPLY TO THE OBJECTIONS CONTAINED IN A LEADING ARTICLE OF THE "ECONOMIST," UNDER DATE NOVEMBER 11, 1876.

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1. It may be considered a very great advantage and assistance towards the discovery of the truth, when an accomplished writer, one of the first authorities in Europe on financial subjects, undertakes the duty of examining an important monetary proposal, and marshalling in array against it all the arguments which his large experience and extensive knowledge enable him to suggest.

2. I feel, therefore, exceedingly thankful that the Editor of the "Economist" has done me the honour of devoting a leading article to the examination of my plans; and I have only to regret my misfortune that, from the peculiar circumstances of India not being fully appreciated, and from my failure to afford sufficient explanation of them, the result arrived at has been that they have been misunderstood; a fact clearly shown by the declaration contained in the beginning of the second paragraph of the article, which, after an accurate description of the scheme (with one exception, which will be hereafter noticed, para. 80) in the first paragraph, falls into the error of saying that it is a plan for introducing "not a gold standard, "but a double standard of a peculiar sort."

3. The two first paragraphs of this article are as follows:—

"It has been suggested that the coinage of rupees should be suspended in India; that their importation should be prohibited; that gold should be coined for anyone who will take it to the Mint at a fixed rate (say 2s. the rupee); that both rupees and gold should be legal tender, which everyone must accept, but that,

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for the present at least, no one should be able to demand gold. And in this way it is hoped that a gold standard would be introduced into India, without the Indian Government having to buy gold to exchange for silver, the cost of which would be more than it could afford.

"But when examined, it will be seen that this is a plan not for introducing into India a gold standard, but a double standard of a peculiar sort. Though the coinage of rupees is suspended, they are still to be legal tender, and their value will therefore continually rise; they will be 'monopoly coins,' so to speak, circulating at a scarcity value, and they will so circulate concurrently with gold. And this is to be the perpetual currency of India, for the only motive for thinking of it is that silver is already about to fall greatly in value; its very adoption would for a very long time cause such a fall because it would close the Indian market against silver—and therefore the cost of buying gold to exchange for the rupee currency of India will be, years hence, more insuperable than it is now.

"But to this plan there are the gravest objections. First," &c., &c.

4. In order to arrive at a clear apprehension of the inapplicability of the epithet, "a double standard of a peculiar sort," it will be useful to enter into a brief examination of the terms employed, to ascertain their significance. Let me then first ask: Q. What is a standard?—A. Without pretending to exact logical precision, this may be explained to be a clearly defined, and, as far as practicable, fixed and unalterable gauge, employed in regulating other measures in common use. Q. What is a standard of value?—A. This is the value of a precisely defined quantity of a certain commodity, used to regulate the value of a currency, which latter measures the values of other commodities.* Q. How does the standard of value regulate the value of a currency?—A. By giving free and unlimited power of adding to and obtaining the cur-

* When a currency consists of full weight coins conforming to the standard within prescribed limits, and if within those limits, legal tender, it is sometimes said that the currency is the standard of value; but, though in common parlance this is not wrong, it cannot be said to be strictly correct; because the coins never are, and never can be, precisely "standard," and the term is wholly inapplicable to some currencies, such as inconvertible notes and token coins.

rency to all parties on their surrendering the prescribed standard equivalents; thereby enlarging it and, "pro tanto," diminishing its value; or with equal freedom to diminish it and increase its value, by withdrawing the coins.

5. It is not necessary to explain further how this system operates; but it is important to notice that it is essential to the automatic regulation of a currency that there should be absolute freedom of exchange between it and the commodity by which it is to be regulated. From the moment that the free exchange of the currency for the regulating commodity is stopped, there is an end of the regulation, and the commodity ceases to be the regulator or standard.

6. Since 1835 silver has been the regulating commodity for the Indian currency, and 168·465 grains of that metal in its pure state, or 183·78 grains $\frac{11}{12}$th fine,* are surrendered to procure the rupee. The "modus operandi" of regulation is as follows:—The coinage of silver being demandable, subject to a small charge, it becomes a profit for individuals to bring silver to the Mint the moment that, by a fall in its value, the coins struck from it can be had cheaper in comparison with commodities than the existing rupees of former coinages; and in such a case fresh rupees are poured into the currency until, in time, it becomes diluted and impaired in value, down to the level of the depreciated silver. On the other hand, if silver becomes more valuable than before, the coins are melted and sent abroad; and thus the currency is always kept on a par with the value of silver. But the moment the coinage of silver is stopped, the former adjustment is put an end to; and silver, however much it might decline in value, could have no effect upon the exist-

* The actual metallic constituents of the rupee are 165 grains pure, and 180 grains $\frac{11}{12}$th fine; but the merchant bringing silver to the Mint is subjected to charges of 2·1 per cent., which cause each coin to cost what is above stated.

ing currency. The rupees, being legal tender, would, as the writer in the "Economist" truly says, continually rise in local value, although the silver they contain might fall. In other words, the currency would be no more regulated by silver. That metal, therefore, cannot be a self-acting standard by which the Indian currency will be regulated, when, in accordance with my proposals, the free coinage of it for private individuals is stopped.

7. The writer in the "Economist" does not say what the two commodities are which constitute the "double standard" according to my scheme; but we may presume that gold is one, because my proposal is that a certain specified quantity of it shall by law be made equivalent to ten rupees, and when coined be legal tender for that sum. We have just seen that silver cannot be the other standard, because, while excluded from the Mint, it would be incapable of affecting the currency automatically by way of regulating it. Hence, as this is impossible, we are driven to the conclusion that, because it is proposed that the "monopoly rupees" shall be legal tender, as well as gold, the writer may, perhaps, intend that the "monopoly rupees," continually rising, are the other standard, regulating themselves.

8. There may be some who really fail to see the distinction between a legal tender coin, or token, and the standard of a currency, but this cannot possibly be the case with the accomplished writer in the "Economist," and I must conclude that he cannot have fully understood my plans. I will proceed, therefore, to enquire why, and to what extent, the monopoly rupees would "rise continually."

9. The author of the article uses the expression "their "value will therefore continually rise," without indicating any

limit of this rise, either as to time or extent. An uninformed reader might, therefore, be led to believe that they would rise indefinitely; and the more so if he failed to see the real meaning of the phrases, used shortly afterwards, that they are to be the "perpetual currency of India," and "that the cost of buying gold to exchange for the rupee currency of India will be, years hence, more insuperable than it is now."

10. The difficulty would be felt in consequence of its not being stated why the rupees would rise in value, and the extent of the rise. I will, therefore, explain these points. The rupee currency might rise in local value, and prices fall, because in a progressive country a continual increase of currency is necessary,* and as no increase to its bulk would be possible to the public by the coinage of silver, the value of the currency might, under my proposed arrangement, gradually increase until it became profitable to procure it by taking gold to the Mints, to be coined under the conditions prescribed by the new standard of that metal.

11. Hence we see that the monopoly rupees would not rise indefinitely, but only till their value equalled that at which currency would be profitably obtainable by means of gold at 2s. the rupee; and that having reached that point, as any further quantity of the currency would be obtainable at the same cost, its enlargement would ensue, and all further rise in value be prevented.

* "Prices would fall, not rise, in consequence of the non-coinage of the rupees. We must remember that the currency of a stationary country requires constant renewal; that of a progressive country requires constant increase, and therefore, if you keep the quantity fixed, prices are sure to fall. And as the rupees cannot be imported, there is no check on this fall. Smuggling rupees apart, the decline will continue as long as the fixity in quantity of the rupee is maintained, and it will be quicker or slower in proportion as the increase of the country is so."—"Economist," 5th August, 1876.

12. How much rise does that represent? Upon this point I venture to offer the self-evident remark, that if, in changing the standard from silver to gold, the quantity of the latter metal taken to constitute the new standard, to be given in exchange for the rupee currency, were precisely of the same value as the average normal value of the quantity of silver contained in the existing standard, the effect would be that no rise in the value of the currency would occur or be possible, excepting so far and to the same extent as it might be necessary to restore it, if it had become diluted and impaired by the previous free admission of depreciated silver coins. But this is not the case.

13. On this point I beg to refer to the third paragraph of my fourth Essay, where the effect of the change upon prices is referred to, to which I may add the remark that every writer upon this subject, up to the present time, has declared that hitherto there has been little or no depreciation of the Indian currency, and that prices in India have not sensibly risen.* Such being the case, the expression in the "Economist" that their (the monopoly rupee's) value will rise continually, can only mean that, "circulating at a scarcity value and concurrently with "gold," they would rise till they were equal to the rupees procured by gold; but if the value of the rupee currency procurable by the coinage of gold be the *same* as that of the rupees previously obtained by the coinage of silver, it is evident there would be no rise at all, excepting and only to the

* The following is from Professor Fawcett's "Manual of Political Economy," 5th edition, page 504: "On this point there seems to be conclusive evidence that up to the present time (July, 1876) no such decline in the purchasing power of silver has taken place in India. If such a decline had occurred, general prices in that country must have advanced, whereas there seems to be no doubt that during the last three or four years, when silver has been falling in price, general prices have not advanced in India, but, on the contrary, have somewhat fallen."

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extent that any local variation in prices might have possibly taken place.

14. In order, then, to complete the proof that there will be no rise at all in the rupee currency by giving unlimited access to the purchase of it for gold at 2s. the rupee, it is only necessary to enquire what the former value of the Indian currency really was; which will be found to have been carefully investigated in comparison with gold, so far as my materials would permit, in my fourth Essay, paragraphs 46 to 61, the result of which tends to prove that the fact of the standard of gold being fixed at Rs.38 14 as. per ounce of $\frac{11}{12}$ths fine, or 2s. the rupee, instead of raising the value of the currency above its former equivalent, would, if anything, be below it, looking to the data supplied from the beginning of this century; and equal to it, comparing it with the average of the 20 years ending the 31st March, 1873.*

15. Hence the expression "continually rise," used by the "Economist," must be interpreted "rise up to the value of the "new standard rupees;" which if the new standard be, as above shown, on the average of years, only equal to the old, will in effect be no rise at all. As this statement may appear to militate against the tenor of the early part of my first Essay, especially paragraph 5, it is necessary to explain that it was important to show that the proposed plan for the rectification of the exchange would be quite effectual, even if the rupees had declined in value; although I expressed a doubt in the note to page 12, and referred to some proof in paragraph 50 of that Essay, that they had not done so. It was not till after the 1st Essay was distributed that ample evidence of the unimpaired value of the rupee was obtained. It may be also as well to point out that if any rise did take place, owing to local or temporary causes, it would be only the restoration of the normal value,

* *Vide* Essay IV., para. 60.

and would be in no degree or kind, *confiscation*, or a robbing of one party to the advantage of another.

16. But it is important to notice the obvious conclusion which follows from the above-stated fact, namely, this: that monopoly rupees which are capable of rising continually cannot be a second or double *Standard*. They are themselves regulated by, and if they rose at all, would rise to the one new standard, namely, that of gold, and no higher. Hence it is not correct to say that the arrangement of the currency proposed by me is a double standard of a peculiar sort, for it is not a double standard of any sort, but a single gold standard, regulating the Indian currency; which may consist of silver and copper token coins with or without full weight gold coins, and any other description of currency.

17. There is other evidence, also, that the writer in the "Economist" has not fully appreciated my scheme. He states that the "only motive for thinking of it is that silver is already "about to fall greatly in value." And again, "If silver "should fall enough to make this scheme worth thinking of," &c., &c.

18. If a reference be made to the latter part of each of the following paragraphs in my *first* Essay, viz., paragraphs 3, 33, and 53, it will be seen that the correction of the present loss and injury to trade caused by the experienced fall in the value of silver, was by no means the only motive for my proposal, but the far more important one of putting an end to the often recurring ruinous fluctuations of exchange between India and England, and fixing it immovably for the future.*

The writer is probably not aware that this is by no means the first time that I have endeavoured to persuade the Govern-

* *Vide* Essay I, paras. 3, 33 & 53; II., paras. 28—30; III., 42; IV., 43.

ment of India of the great importance of assimilating the currency of the Empire with that of Great Britain, and that on more than one occasion, beginning in 1868, I have respectfully pressed upon them the necessity of making the change, without which the heavy losses and embarrassment so painfully experienced of late, cannot be prevented.

19. The writer in the "Economist" says that to the plan, which he describes as follows: "That gold should be coined "for anyone who will take it to the Mint at a fixed rate (say "2s. the rupee); that both rupees and gold should be legal "tender, which everyone must accept, but that, for the present "at least, no one should be able to demand gold," there are the gravest objections; and he proceeds to mention and explain four, which I will deal with *seriatim*.

20. In stating his first objection he says:—

"A currency of *monopoly coins*, circulating much above their cost value, is sure to cause their forgery. This is as certain as that a high tariff will cause smuggling. If silver should fall enough to make this scheme worth thinking of, the gain by coining rupees in India would be very great, and we may depend upon it capital would go into the business. Some of the shrewdest people in the world—the American producers of silver—would have an interest in managing it, and we may be sure they would manage it. The case must not be confounded with that of a 'token coinage' of silver, such as we have in this country, because our silver coins are only legal tender for small sums, and therefore great masses of them are useless. But in the plan supposed, 'monopoly coins' would be the main currency of India, and any quantity of them could be got rid of. India would seem to have most unusual facilities for the operation, for there are native states imbedded in our territory where we hardly know what happens, and there is a rich monetary class of shroffs and bankers who would feel no effectual moral scruple against disposing of illicit rupees. The moral objection to such a currency as one of perpetual use is very great, for it is an incessant temptation to diffused fraud, and this evil would be fastened on India for ever."

21. To this the following short answer was given in a

letter which the Editor of the "Economist" did me the favour to publish, in his issue of the 2nd December last:—

"In regard to the first objection, which relates to forgery and unlawful coinage, or importation of foreign-made genuine rupees, I would explain: First, that to those who are well acquainted with India, the probability of the coining of genuine rupees on a large scale in any native state, with a British resident at its Court, or the importation of foreign-made coins without the knowledge of the Indian Government, in both cases subject to the danger of confiscation, is well known to be extremely small. Secondly, that this objection would only operate during the period of transition from the present to the new system, that is, till the legal tender of the silver coins was restricted; and, thirdly, that even supposing the introduction of unlawful coins did take place to a large extent, it would do no harm to anyone except deprive the Government of a profit of coinage which, if we assume that a million such coins made their way into the circulation annually, could not at the outside exceed £25,000, whereas the saving effected by the measures proposed would be, at least, two or three millions sterling."

22. The above might have been extended and made more complete, but for the necessity for limiting the demand upon the Editor for space in his valuable journal. It may perhaps be considered that any further answer now, in addition to the statement regarding the "forgery" of rupees, given in paragraph 18 of the second Essay, is not required; and I would gladly avoid the risk of wearying the patience of those who honour these essays by their perusal; but as this objection appears to be advanced as one of real importance, and has been adopted by others, as well as the author of the article in the "Economist," it appears to me to be very necessary to meet it in the fullest manner on every point.

23. Before doing so, however, I must draw attention to the fact that, looking forward to the future, the probable demand for currency throughout India will be at the rate of £10½ millions sterling per annum (*vide* Essay 4, paragraphs 22 and 24); a small estimate, if we bear in mind that the population to be served is equal to that of the whole of Europe twenty-six

years ago, * and that Indian trade has, at present, comparatively no assistance from cheques, bills, and other expedients of credit, which in England have been estimated to effect 97 per cent. of the money transactions of the nation.† Of this £10½ millions, if we assume that the present value of the Indian currency is 140 millions sterling, and that at the end of forty years it will be 560 millions, of which three-fifths ‡ will be of gold, it would follow that, on an average, 8½ millions of gold and two millions sterling in value of silver must be added to the currency every year; and it is very important to observe, in considering the effect of unlawful coins on the value of the currency, that their effect would be precisely the same after they had been introduced, as a like number of lawful coins issued from the Mints. But they would be imports into India, and would take the place of so much bar silver, or under the new system, of gold, which would otherwise have been imported to adjust the balance of trade in favour of the Empire.

24. According to the estimate just given, the first two millions so introduced in any given year would render unnecessary the like additions to the silver currency by the Government, and deprive them of the profit of coinage.§ Afterwards, all further unlawful additions would take the place of gold, which would otherwise be brought in by commerce; and, finally, if the amount of spurious coinage annually exceeded the £10½ millions required, the balance of trade would be affected, and the rate of exchange

* *Vide* Malte Brun & Balbi's Universal Geography, Edition 1851, p. 172, and the Memorandum on the Census of British India, 1871-72, printed 1875.

† *Vide* Mr. Heywood's Inaugural Address to the Statistical Society, 21st November, 1876. Journal, Vol. 39, p. 624.

‡ If the proportion of gold be taken at two-fifths, the annual additions would be five and a half gold, and five silver. If one-fifth, about two and three quarters gold, and seven and three quarters silver.

§ *Vide* Essay IV., paragraph 26—2ndly to 5thly, and para. 32 of this Essay.

rendered less favourable. How far this is likely, or otherwise, the reader must judge for himself. What it is now most important to notice is the fact that anything short of the £10½ millions, supposing that to be the correct average, would have no ill effect whatever, except that of depriving the Government of the profit of the silver and gold coinage †, and possibly delaying the introduction of coins of the latter metal.

25. It is also necessary to premise that, when it is mentioned that "there are native states embedded in our territory where "we hardly know what happens," it being thereby implied that coinage may be carried on without the knowledge of the Government of India, many circumstances of importance must have been overlooked. First, the enormous amount of coinage necessary to produce a really serious evil; secondly, the impossibility of executing it in secret. The first point has just been explained. In regard to the second, it may be well to mention that the coinage or actual fabrication of the rupee pieces, was purposely made as difficult as possible when the new rupee was established in 1835, in order to necessitate the use of the very best expensive machinery. The coins could not be executed in large numbers at a cheap rate, so as to escape early detection, if inferior machinery were used; and the erection and use of even a small mint could not be done in a corner. The Mint of Calcutta cost more than two hundred thousand pounds sterling, but it was capable of turning out within the year ten to twelve millions sterling in value of silver coins. A cheaper mint, as to first cost, might be made to do part of the work sufficiently well, but not so economically; and even on a small scale would require the employment of a large number of men. In the Madras Mint, capable of turning out only one million's worth of silver coins per annum, the

† *Ibid.*, and para. 88 of this Essay.

workmen constantly employed numbered from 300 to 400. Coupling with this the fact that for every million sterling in value of coins stamped, there must be more than one hundred tons of silver bullion brought into the Mint, and the same weight of coins carried away and distributed in circulation, it will, I think, be apparent that it would be but a very short time before the English officers at the Court of a native Rajah would become acquainted with the fact that something very like coinage was being carried on.

26. Returning now to the first objection stated by the writer in the "Economist," it must be observed that the statement as to the ease with which "any quantity of unlawful coins "could be got rid of," has not by any means the force which it appears to have, owing to an unintentional bias in the author's representations.

27. It is implied that fraudulent coinage does not take place in England because large masses of coins cannot be got rid of, and the temptation is insufficient; but that in India, where large masses "can be easily got rid of," the temptation would be in full force. But this argument will not bear close examination. The profit on a small mass of unlawful coins may not be enough to tempt a large capitalist, but it may be quite enough to tempt a small one; and for one large capitalist willing to undertake an unlawful business on a large scale, with all the risks attending it, there are twenty who would be willing to try a small one. The writer forgets the circumstance, that the disposal of a few pounds' worth of half-crowns and shillings, genuine though unlawful, may be entrusted to almost any one; but to get rid of 50 *or* 100 *millions* of similar unlawful rupees in India, in exchange for the produce of the country, requires the agency of merchants of a high class. And when, without dwelling upon the immense difficulty of evading

the Customs officers, by secretly importing hundreds of tons of specie, we consider how very soon suspicion would be drawn towards a mercantile house whose ordinary transactions are known to involve no large returns in specie, but which is observed to transmit to the interior, week after week, continually, many lacs of rupees not obtained from the Mint or Treasury, it will I think be admitted that it would be as difficult to find agents in India to run the risk of smuggling 50 or 100 millions of rupees per annum, as it would be to find agents in England to distribute one thousand pounds worth of silver coin in the same time.

28. The smaller sum would yield quite a sufficient temptation for a certain class of men, but we do not find it attempted, even on a small scale. Perhaps the true explanation is, that large dealings require men of substance and character to manage them, and such men will not lend themselves to transactions which, if discovered, would involve not only ruin but disgrace. Even smaller dealings fail to tempt men, when a small amount of capital as well as character is at stake.

29. If this were not true, it would be incredible that an article for which there is in England an enormous and universal demand—an article which may be manufactured upon any scale whatever, with little or no capital compared with the coinage of the precious metals, which is absolutely incapable of detection when once introduced into the market, and the profit connected with the unlawful sale of which, instead of being 10 or 20 per cent. would be more than 500 cent., has not for years past been attempted upon a scale sufficient to attract public attention.

30. I refer to the manufacture of ardent spirits, which "the shrewdest people"—the distillers, not only of America, but also of France, Belgium, Germany, or Italy, would find to be far more easy than the coinage of rupees or shillings.

31. Again—if the difficulty of disposing of large masses of coins be the one great hindrance in England, and its supposed absence in India owing to rupees being legal tender for large sums, the inevitable forerunner of profitable breaches of the law, it may be fairly asked how it happens that in France, where the five-franc silver coins possess all the tempting attributes of the Indian rupees, and, according to the writer's view, large masses of illicit coins would be as easily got rid of as in India, they being legal tender for the largest amounts; where the people are as shrewd and clever as any in the world, where there is abundance of good machinery and every appliance suitable for coinage already in actual use, not to mention that of Germany, Belgium, or England, within 24 hours reach, instead of, as in India, the comparatively total absence of such machinery and appliances, and none procurable within 6,000 miles—how does it happen, I would say, that in spite of these telling disadvantages and risks, far beyond those of India, the French silver currency has remained without a hint, as far as is known, of either smuggling from abroad, or unlawful coinage at home.

32. I have already explained in my letter quoted above (para. 21, 3rdly), that even if the unlawful coins were introduced into India, they would do but slight harm.* I may add that if, instead of the one million I have mentioned, even ten millions were smuggled into the currency per annum, they need not retard the measure in any degree whatever, nor postpone the final settlement of the currency, by the sufficiency of the proportion of gold coins, for a single year.

33. From the above considerations I venture to draw the conclusion that, even if the price of silver were to fall 20 per cent. below its normal value in relation to gold, there is not the

* *Vide* Essay IV., page 12—4thly.

least cause for apprehension that there would be any serious importation into India of unlawful coins. As for their being manufactured in the country, the supposition that a vast establishment like a Mint for the coinage of the precious metals, even on a small scale, could be established and worked in any part of India without the knowledge of the Government, is not more worthy of attention than the suggestion of a foreigner would be who should confidently predict that the high duty on spirits would certainly lead to the establishment of illegal distilleries for the supply of the English market in the Highlands of Scotland or on the Surrey Hills.

34. The above remarks apply to the arguments as they have been stated in detail; but there is a further conclusive answer to be made to the objection, namely this: that if the whole of the arrangements proposed by me had been fully considered, the objection as to unlawful coinage and smuggling would have no "locus standi," indeed, no existence at all. If it be true, as I have stated, that by the process of "dis-rating" the present coins* (not the *currency*), all temptations to unlawful coinage would be *annihilated*, that fact turns the flank of the supposed objection, and the objector must needs level his weapons against this new foe.

35. It is not at all likely, however, that this last-mentioned proposal would ever need to be called into requisition, because the writer in the "Economist" himself, in this very article, quoted hereafter in paragraph 75; written, it must be observed, before the late recovery in the price of silver, expresses the opinion that "the predominating probability seems at present to be" that silver will *not* be permanently excessively depreciated; and without this, the "dis-rating" of the coins would not be in the least degree necessary.

* *Vide* Essay IV., para 38.

36. Having, therefore, a simple, sufficient, and perfect* remedy for the probable evil consequences of a moderate permanent depreciation of silver and fluctuation of the Exchange, and an absolute and final remedy in the event of any further unexpected greater fall,† I trust I may be held to be reasonably justified in the hope that the objection to my plans on the score of unlawful coinage, in or out of India, will be for the future dismissed from consideration.

37. The following is the description given by the writer in the "Economist" of the second "gravest objection" to my proposal :—

"Secondly—The confusion in trade it would cause would be extreme. Suppose it were now enacted that no more rupees should be coined, and that gold should be coined at 2s. the rupee, the export trade now stimulated by the low exchange would be stopped, for the exchange would gradually rise; nor, for a time at least, would the import trade into India find a corresponding gain, for a great uncertainty would be produced, in which no new business would be created though old business would be stopped."

38. This objection I briefly answered as follows: —

"The second objection is that extreme confusion would be caused by my proposal. In reference to this, I must ask you to consider whether there has not been throughout this year the confusion you refer to? Whether it is likely any measures would make matters much worse? On the other hand, I claim for my proposals, not only that they will not add to the confusion already existing, but that when they have been carried out, when the exchanges have risen to, and are finally settled at, within a fraction of 2s. the rupee, all confusion and uncertainty will be at an end. I am sure you will readily allow that when the value of the rupee currency has been steadily fixed by gold at 2s. the rupee, no fluctuation in the London exchange, beyond the cost of shipping gold either way, can take place."

* See the last paragraph of my letter to the Editor of the "Economist" in his issue of December 2nd, 1876—quoted in paragraph 62 of this Essay, of which see also paragraphs 63 and 88.

† *Vide* paragraph 34.

39. As the main point in the second objection was the confusion and uncertainty to be produced by my plans, it was thought sufficient to point out that instead of producing the dreaded evil, the very opposite would be its effect. Upon well established principles it is incontestable that the exchange between two countries having the same metallic standard of value, cannot vary more than the cost of shipping specie from one country to the other; and this between England and India amounts to one per cent., or a farthing in the rupee. I have shown in paragraph 18 of the Appendix to Essay I., and also in paragraph 8 of Essay IV., that for delivery in India, the cost and value of gold are the same if not less than in London; so that the fluctuations of the exchange, if there were the same standard in both countries, would usually take place between 2s. at one time and 1s. 11$\frac{3}{4}$d. at another, and could not exceed the difference, including interest, of $\frac{3}{8}$ths of a penny in the rupee either way.

40. But that such a state of things is very different indeed from what exists at present, will be clearly seen by the annexed diagram, No. 1 in the Appendix, which illustrates the actual variations of the rate of exchange between England and India, and its great depression below the normal rate of 2s. during the year 1876, taken from the reports made in the columns of the "Economist" from time to time, as contrasted with a similar line drawn upon the same scale, showing the utmost departure of the exchange from the normal rate which would be possible at any time if my proposals were adopted, and the currency of India were regulated by gold; in other words, if the same standard of value were applicable to both countries.

41. Diagram No. 2 shows the value of the rupee in pence during the present century from 1800 to 1877, to illustrate the remarks made in paragraphs 46 to 61 of the 4th Essay.

Diagram No. 3 shows the variations in the price of bar silver during the year 1876, and illustrates its inconvenience as a standard for India. Perhaps it may be said in apology for it, 1st, that the year has been an exceptional one, which is no doubt true, and 2ndly, that the diagrams only show the variations of silver in respect to gold, and therefore do not necessarily indicate so great a fluctuation in regard to commodities.

42. But in regard to the first apology it must be observed that, although the year 1876 was a disastrous example of the difficulties connected with a silver standard in India, similar departures from the normal rate, though not so frequent and sudden, have occurred throughout all the century, as shown by Diagram No. 2; and the following quotation from the "Economist," under date the 28th October last, speaking of the gold price of silver, tends to show that such fluctuations are likely to be more probable in the future than they have hitherto been.

"The gold price of silver has now been affected in the same way as the gold "price of other commodities for the first time, because it has now been for the "first time a commodity in the same position as other commodities. Formerly, "the existence of a 'double standard' in various important countries took off "from the market part of any sudden extra supply of gold or silver, replaced it by "in equal supply of the other, and so equalised the price. But now that the "'equilibrating apparatus' has been withdrawn, the price of silver in gold upon "the London market will be affected by the causes which produce cycles of price, "just like anything else."

43. In regard to the second explanation it must be remarked that it is the variation in respect to gold that is all important to the commerce of India. It is the fact of having two fluctuating standards to regulate our vast and increasing transactions which causes all the mischief and ruin to commerce; and it is the incalculable variations in the exchange, consequent on the concurrent or diverse movements of the two metals, which confound all calculations and mock all prevision.

44. The remarks above made, and the illustrations given, will probably be sufficient on the subject of uncertainty and confusion; but it may be necessary to make a few observations regarding the statement that the export trade of India would be stopped, and the import trade not improved, in consequence of the rise in the exchange which would ensue; because, unless the question be thoroughly explained, some apprehension might remain in the minds of those who would hail with gladness the increased exports, as facilitating the necessary withdrawal of funds from India for the home expenses of the Government.

45. It is quite true that the measures proposed by me would, under the direction of the Government of India, cause the exchanges to rise, and thereby diminish the extra abnormal stimulus which has lately affected the export trade from that country. It would at the very same time remove the abnormal depression from the import trade, produced by the same cause;* for the writer's argument against this, founded on uncertainty, is obviously incorrect if, instead of uncertainty, certainty is produced. Both trades would return to their former normal and healthy conditions, the exchanges would at first be invariable, till after ample notice, and would in the end be unalterably fixed at their former and proper average; and commerce, undisturbed by he alarms and perils of a constantly varying relation of va &c between the Indian currency and those of Europe, would continue to grow, as it has hitherto done, by the natural operation of the enlightened measures adopted for its development.

46. It appears to have been overlooked by the writer who objects to my proposals, on the ground that the exchanges

* The following is an extract from an article on "Bi-metalism," in the "Economist" of December 30th, 1876;—"And as we have also often shown, though the trade to India is impeded by a fall of silver, our trade *from* India—our imports from thence—are stimulated. The same cause which tends to impair the one, tends equally and necessarily to add to the other."

would rise, and put a stop to the exports from India, that from the moment the free coinage of rupees in India was suspended until the rate of exchange had risen to 2s. the rupee, it would be entirely under the control of the Government of India; whereas, in the absence of that restriction, and as long as the coinage of rupees is uncontrolled, the exchange is subject to all the fluctuations from which so much uncertainty and confusion have already been experienced. If the coinage of rupees had been stopped in August last, when the rate was 1s. 7d. per rupee, it would have been open to the Secretary of State—had he thought it desirable to keep up the unnatural stimulus of the export trade—to have published his determination to sell bills to all comers at 1s. 7d. the rupee, or any other rate, for the ensuing three months, or longer; and whatever rate he fixed would have continued without the slightest variation till he saw reason to make a change, giving ample notice to merchants.

47. On the other hand, for want of any power of control, the rate has of itself rapidly risen towards its former and proper position, carrying with it all the mischief the writer erroneously attributed to my scheme; and, as regards certainty, it would have been impossible until very recently, when the probable necessity for a large Indian loan has become apparent, for any one to say what the value of the rupee in English money would be at the end of six months, or to give even an approximate guess on the subject with any degree of certainty whatever.

48. On the score therefore of uncertainty and confusion, I trust that it may be not unwillingly allowed that, even if there be no respect in which my proposals may be thought worthy of notice, they will, at the least, not be condemned on account of their occasioning injury to trade by doubts about the rate of exchange.

49. The third objection of the "Economist" is stated in the following terms:—

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"Thirdly—this would deprive India of the great advantage she will gain, if the present state of things continue, as the *entrepot* through which silver is introduced into the East. This is always the effect of a lowered value of the currency-metals. The first persons who get them from the mines gain much; those who buy them from the mining people gain much too; and so on until the depreciation is effected. In the case of India, the importation of silver will gradually raise silver prices; this will bring imports into India from other countries where they have not risen. For very many years England has in this way derived the greatest advantage from being the first country to which the Australian gold was sent, and from which it was diffused. The Indian Finance Minister is no doubt troubled by the fall of silver, because he has to buy gold in London, but India itself will probably be benefitted by it, for it would give her an easy money market, and an extending trade for exports and imports, which the suggested scheme would spoil."

50. And the following is my brief reply :—

"In regard to the third objection, namely, the loss to India of the great advantage of being the *entrepot* through which silver would be introduced into the East, I hope you will permit me to remind you that there is nothing in my plans to prevent India becoming this *entrepot* in the ordinary course of trade; and that it is not necessary it should do so by the process of flooding the currency, raising prices, and attracting imports. Were India possessed of the silver mines, she would attract imports in exchange for the metal; but not having them, she can only procure it by sending exports to pay for it, and give it away again in exchange for imports. This is ordinary Commerce.

51. In regard to flooding the currency and raising prices, it would appear that this could not take place to more than a very trifling extent; otherwise we should have to assume that during the slow process of raising prices, silver from the mines was seeking the markets where prices are higher, or in other words, where it exchanges for fewer commodities, and passing by or avoiding others where it would exchange for more. In regard to India, the owners of the silver must not only do this, but if they allow it to be coined, they must submit to a tax of 2·1 per cent. which would be lost on exportation.

52. For these reasons I hope you will allow that by far the greater part of any silver passing *via* India to the East would not enter the currency, but be dealt with in the ordinary course of trade; and, as I have said, my plans would not in the least interfere with the ordinary trade in silver, but would add thereto important transactions in gold."

53. To this it appears to me unnecessary to add more than an explanation, that when it is said that the raising of prices could not take place to more than a trifling extent, the rise of prices spoken of is, as indeed the argument requires, not the absolute, but the relative rise in comparison with other countries. The point insisted upon is that the precious metals diffuse themselves pretty equally over all countries, and that the owners of the silver will not send it to any country where it exchanges for a smaller value of commodities, that is, where prices are higher, when there are other countries ready to give more for it. Had it been possible that, owing to the fall in silver, prices in India had generally risen, while they remained stationary in other silver standard countries, the result would have been that the exchanges would have turned against her, and the surplus metal would have been exported. As it is, however, it is generally allowed that no such general rise has taken place, and the great object to be aimed at at present is to provide a remedy against the monstrous defect of a different standard of value in India from England and Europe—the consequent fluctuations in the exchange, and all the disastrous losses and disturbance occasioned by them.

54. As stated in my first essay, paragraph 3, "it is not "merely the confusion and detriment to trade at present "experienced, but the inherent mischief of an arrangement "which subjects the enormous and daily increasing commerce "of England and India to constant vicissitudes in the prices of "the two metals constituting their respective standards of "value; and the incessant liability to the embarrassment of all "contracts connected therewith."

55. For the present I will merely add my hope that it will be admitted that my proposals are not exposed to the least objection on the score of depriving India of any advantages as an entrepôt for the distribution of the precious metals. Silver

may be imported and exported without the slightest obstacle or hindrance so far as my proposals are concerned; but it will not enter the currency and forfeit 2 per cent. for doing so, if "the shrewdest people in the world, the American producers of silver," or any other owners, know what they are about in disposing of it.

56. Fourth objection.—The fourth and last objection of the writer in the "Economist" is stated as follows:—

"Fourthly—The currency so introduced would be a very bad one. There would be one currency fit for foreign payments—the gold—and another not so fit. The 'monopoly coins' would be unexportable, and so, when anyone wanted to make a foreign payment, he would have to get gold which, as a rule, would make gold at a premium. The effect would be just like that of a plan, often discussed formerly in England, viz., making the notes issued on securities by the Bank of England (the £15,000,000) inconvertible—the rest remaining convertible. The monopoly rupees would be of limited number and artificial value, just like the security, or Gover[illegible] notes, we used to discuss, and their effect would be exactly what Lord Overstone predicted in 1857 in his evidence on the Bank Acts: 'Our affairs would then go on very much in the way that a man would walk with one of his legs six inches shorter than the other. One set of notes would circulate at a depreciation compared with the other set of notes; hence great inconvenience and confusion would arise.'"

57. 4050. What would be the effect of it?—The effect would be that you would have paper money of two different characters in the country, not of equivalent value; not circulating indiscriminately each for all purposes, but some useful for one purpose and some useful for the other, and that there would be intolerable confusion. A man would have Government notes, and he would present them to another man in payment; that man would say: "I do not want Government notes; I want to make a remittance abroad; I cannot get bullion for those Government notes; I will not take them."

58. 4051. Are they both to be a legal tender?—They would both be a legal tender as far as the Government is concerned, but the Government note would not be a legal tender between individuals. Then what is that individual to do? The other man says to him: "You must go and get me the other notes; either you or I must pay a premium for them."

59. 4052. What would be the harm of that?—The harm would be enormous injustice and intolerable confusion.

60. In the plan now suggested—monopoly coins being compulsory tender—gold not being demandable—it would be settled which party should pay the "premium." Everybody would be obliged to take the purely domestic medium of exchange, and to buy with it the medium which is also of foreign use. But in other respects the evil would be exactly what Lord Overstone describes. There would be two currencies in the country with different values, and prices in one would, as far as the discrepancy went, be different from those in the other.

61. For a short time, and during a period of transition, we can quite imagine that this inconvenience might be endured. But the present plan is by its essence a permanent plan—a plan for making a currency for India for all time; and then an inherent defect of great magnitude such as this becomes a most grave objection. As Lord Overstone said of the old plan—"Then, you would have a certain proportion of the monetary system of the country circulating at a discount; I cannot conceive a greater state of monetary disorganisation than that."

62. To this argument the following short answer was given in my letter above referred to:—

"In regard to the fourth objection, I would explain, that when my plans are carried out, the new currency will be identical in principle with that of Great Britain. Even during the transition it would be not inferior to it after the exchange had risen to 2s. the rupee, because India having a debt of 20 millions sterling per annum due to her in gold, can have no difficulty in discharging any foreign liability at "par." Lord Overstone's evidence applies to quite a different question, and is therefore inapplicable to my proposal."

63. Although this answer is, I trust, quite sufficient to meet the objection, it may nevertheless be desirable to add a few words of further explanation. In the first place it will be evident that when the proposed arrangement is being condemned on account of an inherent defect of great magnitude applicable to it as a "permanent plan"—a "currency for all time" it would be proper only to charge against it the defects belonging to it when so established, as a currency for all time; and then, as I have stated, it would be precisely the same as that of Great Britain, which is admitted on all hands to be absolutely free from the evil referred to. Hence, speaking of the

proposed currency as an established system, the objections which have been stated could be no more urged against it than against our British system of currency, with which it would be identical; and even before its final establishment, if attention be paid to the peculiar circumstances of India, it will, I think, be clearly seen that the inconvenience and difficulties which might occur elsewhere would have absolutely no existence there.

64. The complaint made is that there would be two currencies of different values, and "when any one wanted to make a foreign payment he would have to get gold, which as a rule, would make gold at a premium," so that there would be confusion of prices, &c., &c.

65. This complaint, owing to the special circumstances which I will now mention, is wrong in both its statements, viz.: 1st, it is not true that if a merchant in India wished to make a foreign payment he would "have to get gold;" and 2ndly, after the establishment of the currency the gold coins would dominate prices, and it would be impossible for them to be at a premium any more than sovereigns in England. Even before the establishment of the gold currency in abundance, the necessity to procure gold for foreign payments would not cause it to be "at a premium."

66. Before proceeding to show this, however, I must obviate the charge of inconsistency which might otherwise appear to attach to these statements as compared with one made in Essay No. 1, paragraph 14, that "whenever specie remittances abroad were necessary, gold would leave India," and on that account the "coins would at first command an agio 'or batta.'"

67. Here the "at first" means before the universal supply

of an abundance of gold coins, and as regards gold bullion, the settlement of the exchange at 2s. the rupee. Before the rise of the exchange, gold coins equal in value with sovereigns, and representing 10 rupees, could not be brought into the market, except as curiosities or fancy pieces; because the natural price of a gold piece identical in value with a sovereign must necessarily be above ten rupees, when the exchange is below 2s. the rupee; and such gold pieces would not be coined at all in India, except to secure a higher price than 10 rupees, which higher price would be called a premium in reference to the proposed establishment of the rupee as $\frac{1}{10}$th of a sovereign, but would be, in reality, its legitimate and proper price at the lower rate of exchange.

68. Again, the duration of this "at first" in regard to the rate of exchange would be entirely dependent upon the will of the Secretary of State, and might, if he thought it expedient be reduced to nothing * (*vide* Essay IV., paragraph 10), consequently, its continuance for a short time from motives of policy, and any fancied inconvenience occasioned thereby, cannot be alleged as an essential and necessary objection, however small, to the proposed arrangements.

69. Moreover, the condition mentioned in Essay I., paragraph 14, "whenever specie remittances abroad were necessary"

* In my 4th Essay, paragraphs 10 and 33, it is mentioned as practicable at once to raise the rate of exchange to nearly 2s. the rupee. This requires a little explanation. Under ordinary circumstances the heavy drafts from India by the Secretary of State, if continued with steady uniformity, do not disturb the exchange, which with a gold standard, would adjust itself to any rate not exceeding 2s. the rupee. But if a material change took place suddenly in the whole amount drawn, the rate of exchange would be for the time affected, being increased towards 2s. if the drafts were diminished, and lowered in the contrary event.

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would, as a rule, have no application, if, as will be shown presently, gold for export is never required (*vide* Essay I., paragraph 39) though, as an exception, it might apply if the whole balance of trade were against the empire.

70. To return then to the first statement noticed above in paragraph 65, it appears by Lord George Hamilton's speech in the House of Commons on the 11th August, 1876, that India has from 17 to 20 millions worth of gold annually payable to her in England. Hence, a debtor wishing to pay a foreign claim, does not "have to get gold" at all, but purchases from his neighbour a bill for part of the 20 millions, and therewith pays his debt. In regard to the second statement, it will be seen by reference to the particulars mentioned in my 4th Essay paragraph 8, that whenever gold is required in India for export, or otherwise, it may be delivered there for a trifle even *less* than its actual value in England; and, when the rate of exchange is at 2s. the rupee, gold might be had in any amount, not only without any premium, but possibly at a small discount below the mint price.

71. It is true that while the gold coins are scarce, persons who wished to have them as a matter of curiosity or fancy, would have to pay for them; but they would not be necessary to anyone, because his legal payments would be made in the abundant silver coins; and it would be as absurd for him to complain that coins he was not under any necessity to possess but might purchase or not as he pleased, were saleable at a premium, as to object to medals being sold at a price beyond their metallic value.

72. As to applying to the proposed arrangements, even before the abundance of gold coins, Lord Overstone's objection

to the mixed circulation of convertible and inconvertible notes a very little reflection will show that, under the circumstances, it does not at all apply. Gold coins cannot become part of the regular currency, so as to affect prices, till they are made by law demandable, for no man would price his goods in a currency he could not demand. This objection was never experienced, or even thought of, previous to 1835, when the gold mohurs were legal tender, but not demandable;* and in the same way regarding the proposed new gold coins, until they were made legally demandable, although they might command a premium, it would be incorrect to say the rupee currency was at a discount.

73. According to my proposed arrangement, when fully established, gold coins could not generally enter the Indian currency unless they were of the same value in exchange as the rupees procurable by bills, because if they cost more, it would be a loss to make use of them, and if they cost less the rate would be lowered to compete against them; for with 170 to 200 millions of these rupees to be disposed of in bills annually, it would be absolutely necessary to secure a market.

74. It may be as well now to point out how entirely the homogeneousness of the currency will, in India, be governed by the rate of exchange, and its supply in either one or both of the metals be automatic, and self-adjusted to the wants of trade;

* It has been pointed out by a friend that there is a slight inaccuracy in my note to para. 13 of my first Essay, page 9, as it is made to appear that gold mohurs were legal tender for 15 rupees, not demandable, subsequent to 1835. Not having the Act to refer to, I had forgotten that this privilege of the gold currency, which existed previously, as stated by the late James Prinsep (Useful Tables, page 1), was abolished by it; but that circumstance does not in any way affect the argument with which it was connected.

and this explanation will meet the remarks contained in the latter part of the article now under reply, which runs as follows :—

75. "No doubt it is said the Indian Government may 'regulate' the currency; that it may withdraw rupees from circulation; that it may add to the gold in circulation, and so equalise the value of rupees and gold. But to succeed in such an attempt, the Indian Government would want to know the amount of currency required for foreign payments, which is that which causes the difference between silver and gold; and this they never could know. And American experience of 'gold sales' and greenback withdrawals is a great warning against giving any government the power of arranging the currency. It is sure to injure the good repute if not the real good faith of the Government (for it necessarily creates pecuniary secrets of great value), and nevertheless it is not at all sure to attain its end, and to equalise as it is intended the two kinds of currency. For these reasons, we cannot think that the suggested plan for a new Indian currency would be a good one, even if it could be shown that silver was sure to be permanently excessively depreciated. And as the preponderating probability seems at present to be, that it will *not* be so depreciated, we are still more of opinion that it would be unwise to begin a policy on the face of it, and almost admittedly, so anomalous."

76. When the circumstances of the Indian trade and currency are explained, it will be seen at a glance how wholly inapplicable these remarks are to the proposed plan. It is not intended that the Government should "withdraw rupees from "circulation" at all, or "add gold to it," otherwise than by the ordinary automatic operations of commerce.

77. It has been before explained (Essay III., paras. 4 and 5; Essay IV., 10 and 33), that when the coinage of rupees by individuals is suspended, and the currency is procurable only by gold or bills, it will rest with the Government of India to fix the rate at which bills shall be drawn; and if the Secretary of State issues bills at a lower rate than 2s. the rupee to all applicants, the effect upon trade and the currency will be pro-

cisely the same as if, nothing having been done, the given rate of exchange had been arrived at in consequence of other circumstances, and had become permanent. The rate fixed being short of 2s. the rupee, exactly the same amount of silver bullion would be sent out to India and added to the currency as would be the case under existing circumstances at that rate; the only difference would be that it would be sent by the Secretary of State instead of by the merchants—who would take bills instead—and coined by the Government of India. The quantity so sent out would be regulated strictly as at present by the balance of trade, and the amount of funds requisite for the Indian Home expenses.

78. We have before seen (Essay IV., para. 8), that when a telegraphic transfer of English money can be had in Calcutta or Bombay at the rate of 2s. the rupee, it would be more profitable for a merchant or banker having gold at Galle, on its way from Australia to England, to send it to either of those ports for sale at the Mint price of 38 rupees 14 as per standard ounce, that is 2s. worth of gold for a rupee, than to carry it on to England; and it will be found by calculation that if the rate of discount in London were even as high as 10 per cent. it would *not* be worth while to send gold to India to be exchanged for bills, when the rate for telegraphic transfer was below 1s. 11$\frac{7}{8}$d.;*

* An ounce of gold sent from Galle to England viâ Brindisi, would reach London in 22 days, and sell for 933d. The same sent to Bombay would arrive in less than 4 days, and if sold there for 38 rupees 14 annas, and the produce exchanged for a telegraphic transfer on London at the rate 1s. 11$\frac{7}{8}$d. per rupee, the result would be the payment in London of 928·1406d., eighteen days before the gold sent viâ Brindisi would be available. The difference of 4·8594d. by which the produce of the transfer is less than that of the gold, would not be made good by the eighteen days' interest, unless the rate were 10$\frac{1}{2}$ per cent. (10·5639). At all higher rates the transfer would be preferable, not reckoning any commission, and at all rates below 10·5639 per cent. the transmission of the gold bullion

and it hence follows that if the Secretary of State were to fix the rate of exchange at 1s. 11⅞d. or less, little or no gold would be taken to the Indian Mints for currency purposes, although the standard were changed, and the Mints freely open to receive it.* Trade and commerce would be carried on precisely in the same way as at present, with the very great and important advantage of a permanently fixed and reliable rate of exchange.

79. The Government of India would only "regulate" the currency by keeping the rate of exchange below 2s. the rupee, or otherwise, in the sense of determining whether silver or gold should be brought into it; the wants of commerce alone would decide as to the amount and value of the additions to be made. There would be no necessity for the Government to "want to "know the amount of currency required for foreign payments." They would have not the slightest interest in the matter.

80. When parties object to the suspension of the coinage of rupees as an evil of the gravest magnitude, they make the great mistake of forgetting that it is not the suspen-

to London would be more profitable than its sale in India and transfer at 1s. 11⅞d. per rupee. If the rate of exchange and transfer were 1s. 11$\frac{15}{16}$d., it would pay to send the gold to India when the interest of money in London was more than 5·281 per cent. At 2s. the rupee there is a clear profit of the eighteen days' interest, at whatever rate may prevail.

* Although no gold would be brought to the Mints for ordinary currency use, there might, nevertheless, be a considerable quantity brought for coinage on other grounds. India imports more than four millions sterling of gold annually for hoarding and ornaments, and it is not unlikely that part of this and of the immense hoard already in India, would be brought to the Mint, the charge being so low as ¼ per cent. plus refinage. Gold might also be coined at first for sale in the bazaars, if the coins commanded a sufficient "agio."

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sion of the coining of rupees, but only of the *ad libitum* coinage by private individuals. It is proposed that, instead of the public being permitted to coin the currency, of every accidental shade of value, the Government should do it for them, *and upon their requisition*, at one uniform and invariable standard, as compared with the currencies of England and Europe, and one comparatively uniform rate of exchange, which, if thought expedient, might for a time be kept at 1. 11$\frac{3}{8}$d. per rupee, or less, and hereafter advanced so as to permit the gradual introduction of gold coins.

81. If instead of this, as I venture to think preferably, the rate were now fixed at 2s. the rupee, gold would be gradually brought into the currency, whenever and to the extent that it was found by commerce necessary or expedient. For an unfettered option would be given to every one to obtain gold coins stamped from metal taken by himself to the Mint; or, if he preferred it, silver coins delivered to him at the Government Treasury in exchange for bills purchased at the same cost and remitted from London; a corresponding amount of rupees being afterwards manufactured and poured into the currency by the Government.

82. Supposing that this were not enough, and that at any time in the opinion of the Government of India it became desirable further to increase the bulk of the silver coins, it would be only necessary to sell bills at a lower rate of exchange for a time, and the influx of gold would be stopped and silver take its place. In this way, and in this only, would the currency be "regulated" by the Government; and although the power would thus be lodged in its hands to give an exceptional direction and influence to the action of trade on the currency, yet we may, I think, be justified in believing that such interference

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would be but seldom required. If merchants and banks have the free privilege of supplying either kind of currency on exactly equal terms, we may safely conclude that their own interests will prompt them to supply that section of it which is most in accordance with the necessary requirements of the public.

83. The proposed measures would be introduced without the slightest remark or excitement; for except in so far as the necessary publication of the gold standard would make it known, the change would take place quite insensibly, and be generally unobserved by the great mass of the people, till it began to manifest itself by slow degrees, the gold coins creeping into use more and more, as the convenience of trade and the increasing prosperity of the community rendered them convenient and necessary. In the end, when a sufficiency of gold coins had been brought into use and established in the currency, the rupees whose legal tender had been from time to time gradually restricted, would occupy a position the same in principle as the silver coins in the British currency, though, as regards numbers, proportioned to the wants of the Indian Empire.

84. I trust that I have succeeded in showing, in each case separately, that the grave objections which have been advanced, although they might under a different state of things have been held to bear upon my proposals, yet owing to the peculiar circumstances of India, have not the slightest application to them; and that there is, in reality, no reason whatever why the Government of India should not take the coinage of rupees into their own hands, and gradually restore the rate of exchange to its normal condition of 2s. the rupee, thereby opening the way to the spontaneous introduction of a gold currency, concurrently with the present rupee token coins, in such proportions as the daily wants of trade and foreign commerce would

indicate, and thus bringing about a system of currency precisely the same as that of Great Britain.

85. The present circumstances of India seem to point to the probability that an opportunity will soon come when it will be comparatively easy to advance the rate of exchange to 1s. 11⅞d. or 2s.; but the opportunity may not last long, and it would be a matter of deep regret if it were allowed to pass by unimproved; for to advance it after it has again fallen to a lower rate, would involve, as has been already shown (Essay IV., para. 35) a great loss of time, and large pecuniary sacrifices.

86. The accomplished writer of the criticisms I have endeavoured to answer, has not made the mistake which has been made by others, in denying that the rupees would rise in value; and I hope it will no longer be doubted, that had it been necessary, owing to existing depreciation, they must have risen to the full value of gold, at the rate fixed by the standard, provided they were not made procurable at a cheaper rate by bills. But there are still some who cannot believe that the whole coins of a vast empire can possess an effective value in exchange above their metallic worth, and this undefined apprehension infects their minds with a tinge of doubt as to the whole scheme. To such I must appeal by asking them, what they mean by the rupees not maintaining their full token value? My own meaning is they would be readily received at what they *cost*, in exchange for all commodities, including the precious metals; and I would ask—Is it not true that an article of *universal* demand will, in any market, command at the least its cost price? If so, rupees, when they cannot be bought in any way for less than 2s. the rupee, must readily command that value in exchange in every market in India—as indeed they do now.

Again—Is it not true, that absolutely worthless tokens (notes) in Scotland and Ireland readily command the full value of their cost, in preference to the same value in gold?

87. My objector meets this by saying, Oh, yes! but these notes are convertible into gold. Ans.—True, but they are preferred as they are; and according to my proposal the token rupees will be convertible into gold, when the latter coins have been made demandable; and, even in the meantime, when gold is purchasable to any required amount in exchange for rupees at their full value (*vide* Essay IV., para. 8), and sovereigns pervade the country at the same price, the rupees though not of right, will be practically convertible. Objector—But there is a vast difference between notes and coins; coins cannot permanently maintain a value in exchange materially beyond their intrinsic metallic worth in the market. Ans.—I think this is a mistake. Our half-crowns and shillings permanently maintain their value. Objector—Yes, but they are of limited legal tender. Ans.—So will the rupees be, if you will have a little patience till the proper time has arrived. But, in the meantime, my position is, that the limited legal tender has nothing to do with the matter. That the coins must exchange for what they cost, whether in large numbers or small. Otherwise, how could worthless, inconvertible notes command any value at all, in America, Italy, Russia, and innumerable instances? How is it that in France the 5-franc pieces have for the last two or three years maintained a value very decidedly above their metallic worth? How is it that these very rupees have* fully maintained a value above it? Objector—It takes time to bring about the change. Ans.—Yes, perhaps it may take time, but also something more than time. It needs also that the currency be supplied

* *Vide* the note to para. 13 of this Essay.

cheaper, in order that it should fall in value. I am afraid it is here we differ. If you believe that rupees costing two shillings each will be continuously supplied to the markets where they will only command goods to the value of 1s. 10d. or 1s. 11d. I must take my leave of you. For it is beyond my power to believe that if the constantly increasing currency of a progressive country like India is being augmented by the manufacture of 50 to 100 millions annually of new coins costing two shillings each; and 170 to 200 millions of the existing coins aiso change hands every year, being bought by *gold* at the same price, the exchangeable value of these same coins in the Indian markets can be a shade less than the value for which they are obtained.

88. These objections and answers might be added to; but the basis of truth is simple. A legal tender token currency for home circulation is worth what it necessarily costs, and, when subordinated to a dominant system of full valued gold coins, is the perfection of a currency for commercial purposes; and this is what I have ventured respectfully to propose. It may perhaps not be generally known that there is at the present moment a greater value of gold in India than the average estimate (£150 millions) of the silver currency. If this gold were coinable at a cheap rate, and more especially in fine gold pieces, it is very likely that a considerable proportion of it would be brought to the Mints, and there would be a decided profit in coining it, even at one-sixth per cent. Probably most of the coins would be returned to the hoards they now fill: but it would be a boon to the owners to convert the fine gold bars into the more useful form of coins, in which they would be much more available as money in time of need; and the hoarding of gold or silver, whether in bars or coins, has no permanent effect upon the currency, which is quite independent of it, and by spontaneous action takes care of itself.

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89. Let me now briefly state a few of the principal facts connected with the proposal under discussion.

1st. India possesses a currency which, being founded upon a different standard from that of England and a large part of Europe, is for the purposes of her vast and increasing foreign trade, most highly inconvenient and obstructive to commerce, owing to the serious fluctuations between the two metals to which it is liable. We have had late disastrous experience of these, and they are likely to be more frequent,* owing to late changes in the financial arrangements of European States.

90. 2ndly.—We have a proposal to put an end to this unsatisfactory and baneful state of things, by assimilating the Indian Standard with that of Great Britain and Europe.

91. 3rdly.—We have proof that instead of being in the least degree a costly measure, the change would be accompanied by a saving to the revenues of India, which cannot be estimated at less than one million sterling per annum.

92. 4thly—We have evidence that the introduction of a gold currency is desired unanimously by the natives of every part of India †, as stated in the Report of the Commission appointed to enquire into the subject.

93. 5thly.—We have an early prospect of the opportunity of restoring the existing currency to its normal value, in reln-

* *Vide* quotation in paragraph 42 of this Essay.

† The following extract is from the 24th paragraph of the Report of the Commission, ordered by the House of Commons to be printed 16th March, 1868:

4th. "That the demand for gold currency is unanimous throughout the country."

tion to gold, viz., 2s. the rupee, on its near approximation to that rate; and thereby expediting the change and the acquisition of the profit and advantages resulting from it.

94. 6thly.—By the proposed measure loans for public purposes can be raised equally well in England or India *; because it would reduce to a minimum their disturbing effect upon the exchanges; which effects, with a double Standard, are equally great, whether the loans be raised in one country or the other; except in regard to India, so far as the capital is supplied by permanent residents in India, and does not belong, as it often does to a large extent, to proprietors in Europe.

95. It is with the greatest reluctance that I have in the foregoing remarks again ventured to intrude my proposals upon the notice of the distinguished statesmen who control the destinies of our vast Empire; but believing as I am encouraged to do after more than nine months' discussion, that I advocate measures of great importance, only requiring to be thoroughly explained to be approved; and destitute as I am of the privilege of being made acquainted with the obstacles which stand in the way of their adoption, I have felt it incumbent upon me to answer every apparent objection of importance which has come to my knowledge; and in the present case more especially to examine with the utmost deference and careful attention the opinion of so eminent and deservedly esteemed an authority as the writer whose criticisms are discussed in these pages.

* *Vide* Essay IV., paragraph 20.

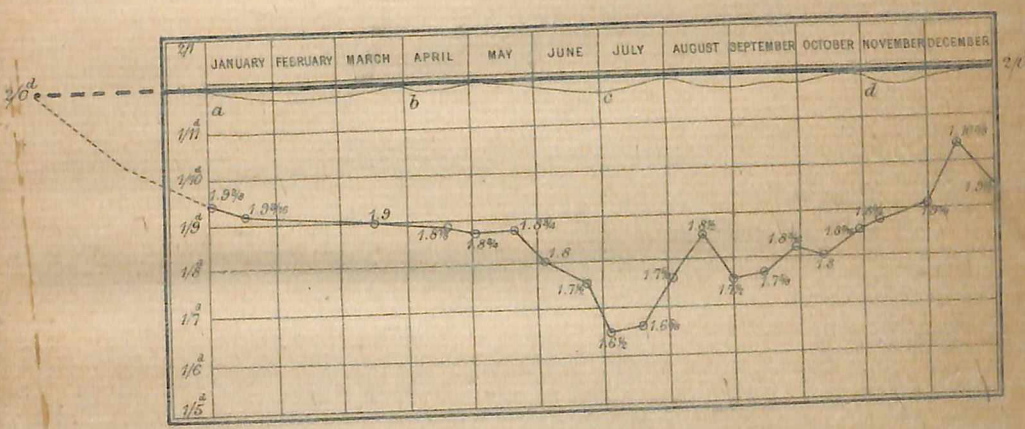
15*th February*, 1877 J. T. SMITH.

DIAGRAM No. I.

DIAGRAM No. 1, showing the variations in the rate of exchange (Council Bills on India), during the year 1876.

According to M. Girard de Quetteville's Circular.

N.B.—The curved line, marked *a*, *b*, *c*, *d*, represents the greatest variation of the rate of exchange, and the greatest departure from the normal rate of 2s. the rupee, with a gold standard.



N.B.—The mean rate during the year was about 1s. 8½d., the highest 1s. 10⅜d., the lowest 1s. 6½d., these being 9·146 and 9·75 per cent. on each side of the mean rate, or a total variation of nearly 19 per cent. The mean rate being no less than 14·8437 per cent. below the normal rate of 2s. the rupee, the highest during the year being 6·77, and the lowest 22·916 per cent. below the same.

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Diagram. No. II.

DIAGRAM No. 2, showing the value of the Rupee in Pence, during the present century, viz.: from A.D. 1800 to 1877.

Essay IV.—*para.* 60.

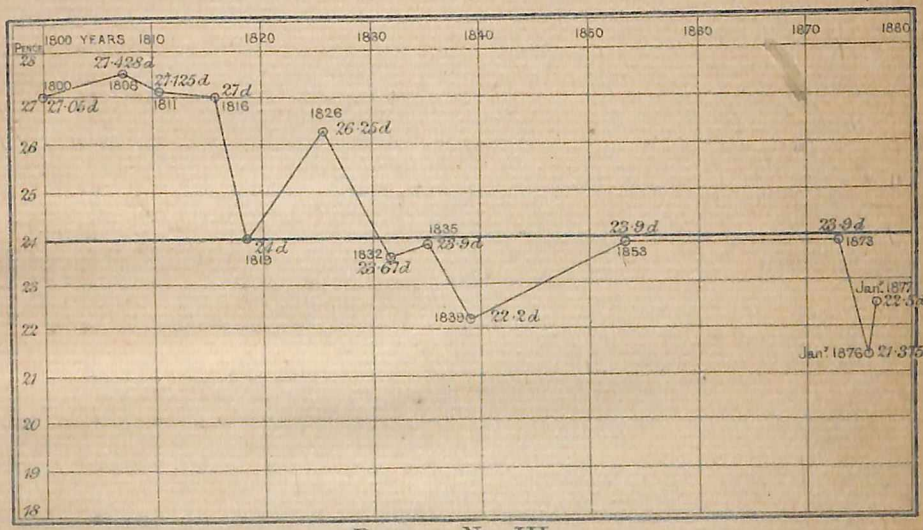
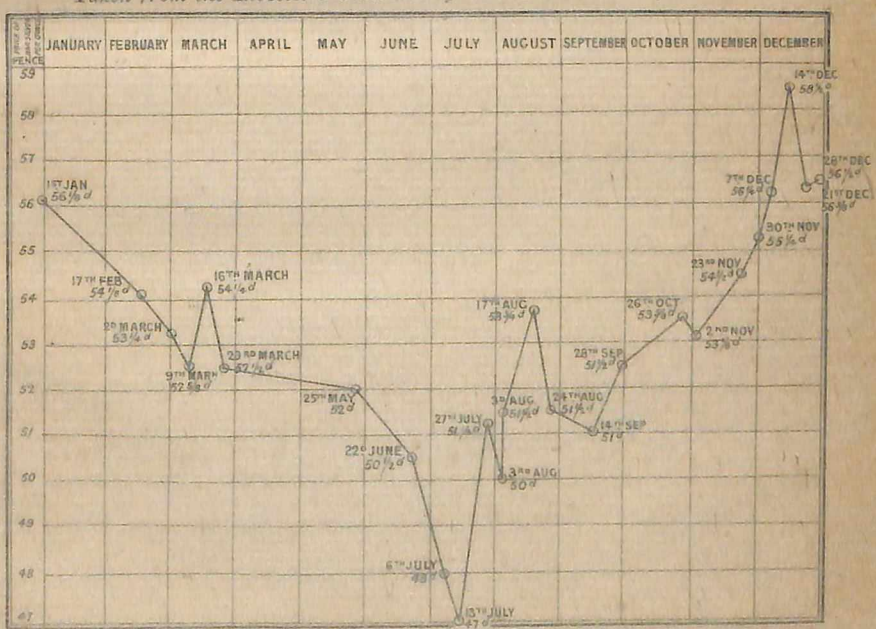


Diagram No. III.

DIAGRAM No. 3, showing the variations in the price of Bar Silver during the year 1876.

Taken from the Investor's Guardian of the 30th December, 1876.



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Extract from Report of Conferences held by the India Committee of the Society of Arts, 1870.

ON THE METHODS OF COMPUTING THE COMPARATIVE VALUES OF GOLD AND SILVER IN INDIA.

1. Before proceeding to explain the various methods of calculating the relative values, in India, of gold and silver, it is necessary to say a few words about averages. A fair estimate of the truth cannot be arrived at, unless an independent and unbiased judgment be first formed as to the number of years' average best suited to the purpose. I shall myself on the present occasion refer to the statistics of the years 1853 to 1867, the largest number of which reliable data are procurable, and beyond which the important influence of the gold discoveries in Australia does not come into operation.

2. It must be remarked also that, in calculating the average market-price of silver and gold, allowance ought to be made for the quantities imported and sold at different times. To do this involves troublesome calculations, and it is not always that the labour very much affects the result. This may, perhaps, account for the omission.

3. The methods above referred to are as follows:—

First.—By taking the average prices of the two metals in the ports whence they are supplied, and adding to them, respectively, the costs and all the expenses of their transmission to India.

Secondly.—By ascertaining the average market-price of gold bullion, in rupees, in the Indian market.

Thirdly.—By ascertaining the value of the bullion contents of a sovereign, in rupees in the Indian market, as compared with the value of good bills on England, as shown by the quoted rates of exchange.

4. *First Method.*—To begin with the first of the above methods of calculation, it may be well to state that the value of gold bullion in India is very nearly the same, but, if anything, rather less than in London. This has been brought about by improvements in the means of communication established of late years. Although in some degree a repetition of what has been before stated, yet, as the observation is a novel one, bearing upon the subject under discussion in all its aspects, a little further explanation is desirable.

5. It is almost unnecessary to mention that gold bullion sent to England for sale fetches the invariable price of £3 17s. 9d. per standard ounce, immediate payment; to which it may be added that, lately, large quantities of gold produced in Australia have been sent by the Peninsular and Oriental Company's steamers *via* Ceylon to England. When at Galle, (in Ceylon), goods and passengers are within a week's transit of Calcutta or Bombay, but not nearer than about three weeks from England. The practice has been established by the principal banks having branches in Australia and the East, to telegraph instructions to their agents in Galle, as to the destination of gold arriving there on its way to England. When the exchange with India and the price of gold rise above a certain point, orders are sent to alter the destination of the gold to Calcutta, or Bombay, where it is sold, and bills on London purchased with the proceeds, thereby producing a better result than the actual delivery of the gold itself at the Bank of England in exchange for the £3 17s. 9d. per ounce, as above stated.

6. At present, we have no further connection with this fact than to point out the inference that gold bullion, which is on its way to England for sale at £3 17s. 9d. per ounce, must on its arrival in Ceylon be worth only £3 17s. 9d. per ounce, less the charge of conveyance and delay, &c., from Ceylon to England; and the same gold taken to Calcutta, cannot in reality be worth more than the same £3 17s. 9d. per standard ounce, less the difference between all the charges of the longer voyage from Ceylon to London, and the shorter one from the same place to Calcutta. Owing to the absence of competition, it happens that, just now, the charges for freight and insurance by the Peninsular and Oriental Company's steamers are more for the shorter than the longer voyage; but the difference in the loss of time, owing to the greater length of the voyage to England, makes up for the overcharge; so that, including delay, the cost of landing gold bullion in Calcutta or Bombay is not more, and (if a gold currency were established, and a large supply of bullion required to feed it, so as to induce competition) it will probably be materially less than the cost of delivery in London; and hence its value may safely be calculated as the same.

7. The value of standard gold bullion in India may, therefore, be taken as being, in English money, £3 17s. 9d. per oz. or less. We will now inquire into that of silver bullion.

8. In my "Remarks on a Gold Currency for India,"* published in January, 1868, I gave a list (at page 33) of the London market prices of silver, taken from the Parliamentary papers, supplemented by information very kindly furnished to me by Messrs. Pixley, Abel, and Langley, extending from 1853 to the end of 1866. To this I am now able to add the facts for the year 1867.

9. The ordinary average price, taken in the common way, for these fifteen years, is 61·3375d. per standard ounce. The freight and charges incurred in sending this to India, including loss of interest during transit, amount to 2¾ per cent., which, added to the cost in London, brings up the price per oz. in India to 63·02428227744d. But the English standard ounce of silver contains 444 grains of pure metal, so that the ounce of pure silver would be worth in India 63·02428 × $\frac{444}{400}$, or 68·13435885078. On the other hand, the ounce of standard gold, containing 440 grains pure, being worth in India, as above explained, 933d., the ounce of pure gold must be worth 933d. × $\frac{440}{400}$, or 1017·81818181 pence, &c. Hence the relative value of the two metals, according to the above statement, is:—

$$\frac{1017{\cdot}81818181}{68{\cdot}13435} \text{ &c., or } 14{\cdot}938309.$$

10. The above appears to be the relative value of the two metals, as bullion, in their pure state; and the same ratio applies also when both contain the same proportion of alloy, which is the case with rupees and sovereigns. So that, to find the value of a sovereign, containing 123·274 grains of standard gold, in rupees, we have first to multiply the number of grains by the above ratio, to show the corresponding number of grains of rupee standard silver bullion of equal value; and secondly, in order to reduce this bullion to

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rupees in coin, to take off from the amount so obtained the Indian charges of mintage, 2·1 per cent.

11. Now, 123·274 × 14·938399 = 1841·516198326 grains; and deducting 2·1 per cent. from this, the remainder is 1802·8443598, or rather less than 6th per cent. more than 10 rupees, of 180 grains each, being exactly 10·01580, &c., or 10 rupees 0 annas 3 pies (*Vide* par. 32.)

12. It must be here observed that the above result is arrived at by using the valuation of silver founded on the ordinary average. The value of gold has been taken without any deduction for the high freight and insurance now charged between Australia and India.

13. It must further be remarked also, that the values above calculated are based upon the present cost of transmission of the silver to India applied to the former average market prices. To obtain a true average of the value of silver bullion in India in former years, the price of each year ought to be added to the cost of transmission of the same year, and if this were done, the average value of the ounce of pure silver would be ¼ per cent. more than has been above shown, and would be represented by a price in English money of 68·4750d., the value of the gold contained in a sovereign being then only 9 rupees 15 annas 5½ pies.

14. *Second Method.*—This method is comparatively more easy and intelligible than either of the others, as it is the mere statement of the actual selling price, in rupees, in the Indian market, of gold bullion, as quoted in the returns, and reduced to "standard" fineness.

15. Taking the fifteen years from 1853 to 1867 inclusive, the average price of gold in the Calcutta market is 257·4 annas per tola, pure. The result is very nearly the same, whether the ordinary average be taken, or if it be calculated in the more exact manner above referred to.

16. Taking the above average, it appears by mere proportion that when the tola, or 180 grains of pure gold, costs 257·4 annas, the 113·001605 grains pure in the sovereign must be worth 161·592295 annas, about one per cent. in excess of ten rupees, or 160 annas, the exact value being 10·099518 rupees. It must be observed, however, that in discussing the comparative values of the two metals for coinage, we are bound to consider the cost of both as delivered to the mint. Now if, as has been proposed, gold were coined free of charge, and paid for immediately on delivery, its comparative cost would be much less than the average market price, where, in addition to the cause presently to be stated, it is enhanced by charges which would be avoided by delivery to the mint, viz., brokerage, delay, and the necessity for selecting finenesses to suit the market. These causes united amount to half per cent.; but the chief cause which tends to raise the market price of gold above what, in the nature of things, it must needs be, and shortly will be, is that, for want of telegraphic communication between India and Australia, a great deal of gold is actually sent from London, at an extra cost of nearly two per cent. In fact, gold which might be sent direct from Galle to India, virtually comes to London, and is sent back again burdened with the unnecessary cost of a six weeks' voyage. This is owing to the following causes:—The gold market in India is a very limited one, and very sensitive, and cannot be supplied with so costly an article as gold on speculation; for a very slight addition to the stock causes a fall in the price, so that the despatch from Sydney or Melbourne of a precious commodity which cannot be kept waiting for a rise of prices would be attended with the greatest risk; and hence, with the exception of bullion which happens to be on its way to England, and capable of diversion to India, sudden changes in the market can only be met in London, prices being reported, and sales "for arrival" being effected by telegram. As before explained, this involves an additional expense of nearly two per cent., and therefore adds to the average quotations of prices in the market; but it will certainly be put an end to whenever telegraphic communication shall have been successfully opened between the two continents, or when there is a steady and certain market for gold at a fixed price.

17. *Third Method.*—The method of calculating the average relative values of silver and gold in India by means of the exchanges, is founded on the following principles:—

18. When the balance of trade is in favour of India, and bullion is required to be imported, it has been above shown that it may be delivered there at the same cost as in England, if not less; and it must be especially noticed that the gold bullion imported into the Indian market arrives there in lieu of being delivered at the same time and cost as in London.* Its value in Calcutta, therefore, must be equal to its value in London, as either alternative is equally at the command of the owner, and hence, in order to exchange it in Calcutta without loss for a bill on London, he must do so at such a price as would give him the same value as the gold would fetch in London at the very time of sale in Calcutta; that is to say, for example, in exchange for an ounce of standard gold he must have at least the equivalent of £3 17s. 9d. payable in London at the very time of his parting with the bullion in Calcutta.

19. The effect is nearly the same,† and it will, perhaps, make the explanation more clear if, instead of applying our remarks to an ounce of standard gold, we refer to the quantity contained in a sovereign, and say that a bank manager or merchant landing gold in Calcutta, must, to avoid loss, exchange every sovereign's weight of standard gold for the equivalent of a bill for 240 pence, payable in London at the very time of sale.

20. A first-class six-months' bill will be necessarily detained a month in transit, and be discounted on its reaching London; and if we assume the average rate of discount at 4 per cent., thus making the charge for six months 2 per cent., and allow ½ per cent. for the loss of interest during the transmission, we arrive at the fact that when gold bullion is required to be sent to India it is more valuable there by 2½ per cent. than first-class six-months' bills; and that, on

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* The time is in fact not the same, as it would not reach London for two weeks after it would arrive in Calcutta, but the difference in the freight and charges by the Peninsular and Oriental Company at present make up for this delay, as before explained, so that, as regards values, the gold is about the same in both places.

† The only difference is that the bullion contents of a sovereign would not be quite worth 240 pence, but only about 239·6 pence; so that, by using 240 pence, the gold is reckoned at a trifle above its true value.

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tola pure, as compared with bills, was 15 rupees 13 annas 9·9 pies (which, it must be remembered, is the rate at which it could certainly be delivered at the mint), is more than $\frac{3}{4}$ per cent. below the price (15 rupees 14 annas 10·3 pies) which would yield sovereigns for 10 rupees, and nearly $1\frac{1}{2}$ per cent. below the average actual selling price, which, as stated before (par. 15) was, during the sixteen years referred to, 16 rupees 1 anna 5 pies per tola pure. This difference between the rate at which it could be and what it actually has been sold, shows the effect of the absence of a certain market, and the other cause above referred to (*Vide* par. 16).

28. A difficulty may perhaps arise in consequence of its having been stated, in par. 20, that when the exchange is favourable to India, and the rate, for instance, is 2s. 1d. to 2s. 2d. per rupee, a sovereign's weight of standard gold is worth 246 pence in bills; and in par. 22, when the exchanges are against India, and the rate, for instance, 1s. 10d. per rupee, it is worth only 240·6 pence, whereas, it is well known that gold is much dearer in the Calcutta market during an adverse than during a favourable state of the exchanges. This apparent contradiction will be explained when we consider that, during a favourable exchange for India, bills command a much lower price in rupees than during an adverse one, so that when the rate, for instance, is 2s. 2d. per rupee, a sovereign worth 246d. in a six-months' bill would be equivalent to only 9·46 rupees; when the rate is 1s. 10d. per rupee, a sovereign worth 240·6 pence in a bill would be equivalent to 10·93 rupees. Thus the large number of pence in a bill represents a smaller number of rupees.

29. If we were to attempt to deduce an average value of gold from an average of the prices so calculated from the highest and lowest rates of exchange, we should be led to a somewhat higher value of gold, because a fall in the exchange has a greater effect in raising its price than a rise has in lowering it. But the result so arrived at would be inaccurate, because it will be seen, from what immediately follows, that the introduction of a gold currency would have the effect of restraining the variations of exchange within narrow limits; and the value of gold, as derived from the normal rate, agrees with that stated in pars. 24 and 27, making the bullion value of the sovereign $\frac{5}{8}$ per cent. less than 10 rupees.

30. For instance, if we assume that a gold currency of sovereigns, at the rate of 10 rupees each, were established in India, the short exchange between England and India could not fluctuate more than 2s. to 1s. $11\frac{1}{2}$d. per rupee. In regard to the former, when the exchanges were favourable to India, gold would be laid down there from Australia at its English value, and the 123·274 grs. of standard gold, which would otherwise have produced 20s. in England, will become 10 rupees in India, thereby saving the expense of transmission from London. In regard to the latter, sovereigns in free circulation in India at 10 rupees each, will be sent home at an expense of $1\frac{3}{4}$ per cent., thus giving an exchange of 1s. $11\frac{1}{2}$d. The greatest fluctuations would, therefore, be from 2s. to 1s. $11\frac{1}{2}$d., or one per cent. on either side of the average. At present, the greatest fluctuation amounts to 8 per cent. or even more on either side of the average; but this refers to six-months' bills, and at times must include variations in the rate of discount

31. We may also observe that the establishment of a gold currency in India would not only reduce the fluctuations in the exchange eight-fold, but would put an end to a very large unnecessary expense now incurred in supplying the wants of India for specie. Including the loss of interest during transit, silver cannot be sent out to India at a less charge than $2\frac{3}{4}$ per cent., nor placed in currency for much less than 5 per cent.; and these charges, at the rate of supply of the last ten years, amount to half a million per annum, of which the whole would be lost, and £275,000 more, making the total loss of £775,000, on the return of the metal to Europe during an adverse exchange. Gold, on the other hand, would be landed in India at its European cost only, thus supplying India at a saving of £300,000. And 10 millions in value would be returned to Europe at the expense of about £225,000, which would be the whole loss, instead of £775,000.

32. On summing up the results at which we have arrived by these three different methods of inquiry, we find that, by the first method, as applied to the last fifteen years, the value of the bullion contained in a sovereign is found to be 10·0158026, &c., rupees, or 10 rupees 0 annas 3 pies.

33. By the second method, the bullion value of the sovereign in rupees, taking the average of the last fifteen years, is found to be 10·099 rupees, or 10 rupees 1 anna 7 pies. By the third method, we find the bullion value of the sovereign, as reckoned on a fifteen years' average, 9·975 rupees or 9 rupees 15 annas 7 pies, all these valuations being subject to reductions on the establishment of the gold currency, as shown in the following table:—

TABLE SHOWING THE BULLION VALUE OF A SOVEREIGN IN RUPEES.

First Method..	10·0158	Subject to a reduction of $\frac{1}{4}$ per cent. *
Second Method	10·0995	Subject to a reduction of $1\frac{1}{4}$ per cent., † besides $\frac{1}{4}$ per cent.
Third Method..	9·9750	Subject to a reduction of $\frac{1}{2}$ per cent. ‡
Average ..	10·0301, or 10 rupees 0 annas $5\frac{3}{4}$ pies.	

34. It will be observed that the valuations above stated are subject to heavy deductions, owing to causes sure to come into operation on the establishment of a gold currency and a certain market for gold at a fixed price. As the calculations have been founded on data collected from the most authentic sources with great care, during the past three years, it is not probable that they will be found very far from correct; and even supposing that they should be sensibly modified by later information or facts derived from other sources, there seems, nevertheless, to be little room for doubt that the future value of gold would be so much reduced by a free communication with the mines, and its establishment as the standard currency of India, that the British sovereign would probably need the addition of a mint charge, to a greater or less extent, to bring it up to a fairly estimated equality with the 10 rupees hitherto current in India, as expressive of legal contracts and the commercial value of the liabilities of the Government.

J. T. SMITH.

* On account of undue charges of freight and insurance from Gazle to India, *vide* pars. 6, 12, and 25.
† On account of brokerage delay in sale, *vide* par. 16.
‡ On account of the undue market price of gold, owing to want of telegraphic communication with Australia, *vide* pars. 16 and 27.

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the average, the gold bullion necessary to form a sovereign (123·274 grains standard) is equivalent in value to a first-rate bank-bill for 240 pence, plus 2½ per cent., that is 246 pence.

21. It is obvious this is only an average statement, and that various circumstances may, from time to time, slightly modify the equation. If, for instance, the rate of discount in London were 6 per cent., gold would, for six-months' bills, be worth 3¼ per cent. more than its intrinsic equivalent. If the rate were only 2 per cent., then it could be sold without loss for only 1½ per cent. more. And the same may be said for the allowance for interest during transit. We are, however, now only dealing with averages, and therefore what has been already said is sufficient, and it leads to the conclusion that gold from Australia may be delivered in India, in any quantity, in exchange for unexceptionable six-months' bills, at the rate of 2½ per cent. above its London price. It may be useful to add that the Bank of England price for a tola of pure gold is 381·6818 pence, and 2½ per cent. beyond that is 391·22386 pence. If the London rate of discount be such as to require 2½ per cent. to be added, a merchant could afford to sell his tola of pure gold for as many rupees as are shown by dividing 391·22 by the number of pence given for a rupee in six-months' bills. For instance, when the rate is 2s., he could sell

pure gold for $\frac{391 \cdot 22}{24}$ or 16 rupees 2 annas per tola.

If the London rate of discount be less than 4 per cent. he can afford to sell his gold cheaper, and *vice versa*. But if the rate of exchange be high, the price of gold necessarily falls in due proportion. At 2s. 1d. per rupee (London discount being, as before, 4 per cent.), the price of gold would be $\frac{391 \cdot 22}{25}$ or 15·648952 rupees per tola pure.

22. Let us now alter the conditions, and suppose that, the exchanges being adverse to India, it is necessary to send gold to England; we have to inquire at what rate, supposing the gold existed in India in the accessible form of gold currency, it could be transmitted to England, and what would be its value as compared with first-rate six-months' bills. Here, taking the same form of illustration as before, we may remark that sovereigns worth 240 pence in London would in the event of its being necessary to transmit funds thither from Calcutta, be of a ¼ per cent. more value than a first-class six-months' bank bill, because it takes the same time to send both to London and realise them, and the cost of sending the gold is about 1¾ per cent. The bill costs nothing to send, but it must, on its arrival, be discounted for the six months, at an average charge of 2 per cent. The difference is ¼ per cent. in favour of the sovereign remittance, and hence each sovereign in Calcutta would be worth 240 pence plus ¼ per cent., or 240·6 pence, in a six-months' bill.

23. We have now established the fact that, supposing a gold currency of sovereigns coined free of charge existed in India, any amount of metal required for the purpose could be supplied from Australia, and the value of the coins so struck would vary from a maximum of 246 pence to a minimum of 240·6 pence in first-class six-months' commercial bills. Hence the mean value of the sovereign would be equal to 243·3d. in six-months' bills.

24. We have next to find out the average value of first-class commercial six-months' bills, in rupees, in the Calcutta market, and then compare the two, viz., the gold and rupees. By returns with which I have been favoured from the India-office, showing the average monthly price of first-class bills in the Calcutta market, it appears that, throughout the sixteen years from 1853 to 1868 inclusive, the average rate was 24·39 pence per rupee. Consequently, ten rupees would command 243·9 pence in bills. But the mean value of the bullion contained in a sovereign is, as we have just seen, 243·3 pence in bills. Hence, if coined without charge (as in England), the sovereign would be of less value than ten rupees, the difference being 0·6 in 243 pence, or about one-fourth per cent. Dividing 243·3 by 243·9 we have 9·975 rupees as the true value of the sovereign.

25. In the above statement I have endeavoured to show what the value of the sovereign must necessarily be, if it were established as legal tender in India, supposing the rates of exchange to be on the average what they have been for the last sixteen years. But the results are open to this correction, that they are based on the assumption that the present disproportion of the charges of freight and insurance between Australia and Calcutta on the one hand, and Australia and London on the other, will continue; a most improbable supposition when coupled with that of an Indian gold currency. Were the rates of freight and insurance properly adjusted, the effect would be to reduce the value of gold in the above calculation by one-fourth to one-half per cent. more.

26. These remarks appear to show, conclusively, that if sovereigns were coined in India free of all expense, they could and would be supplied at a less cost and current value than ten rupees, supposing the latter to be of the same value as that which they have borne on the average during the last sixteen years; but it must be observed that this conclusion involves the supposition that there is a ready market for the gold, such as a mint would be, and that the metal can accordingly be at once disposed of for the net value at which it can be afforded. This has not been the case hitherto, and it may be useful as well as interesting to trace the effect of this want of a ready market in the enhanced market price of gold.

27. It has been shown that the value of gold must, as a matter of necessity, be superior to that of six-months' commercial bills, representing its intrinsic worth in the English market, the superiority amounting on the average to 3·3 pence in each sovereign, or about 1⅜ per cent. Hence, an ounce of standard gold in coins would be worth 945·828 pence in good six-months' bills, and a tola (180 grains) of pure gold would be worth 386·929 pence in bills. Now, the average price of bills for the last sixteen years having been 2·439 pence per rupee, we have only to divide the number of pence in a six months' bill, equivalent to a tola of pure gold, by the number of pence in a six months' bill given on the average for a rupee, to obtain the value in rupees of pure gold. In doing this (dividing 386·929 by 24·39) it follows that the average value of gold per

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